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VA HOME LOAN GUARANTY PROGRAM, FISCAL YEAR BUDGET PROPOSALS AND S. 1887

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ORIGINAL

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

MARCH 5, 1986

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S. 1887—To amend title 38, United States Code, to increase the rates of disability compensation for disabled veterans and the rates of dependency and indemnity compensation for surviving spouses and children of veterans, to improve veterans' education benefits, and to improve the Veterans' Administration home loan guaranty program; to amend titles 10 and 38, United States Code, to improve national cemetery programs; and for other purposes 49

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VA HOME LOAN GUARANTY PROGRAM, FISCAL YEAR BUDGET PROPOSALS AND S. 1887

Wednesday, March 5, 1986

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND MEMORIALAFFAIRS,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 334, Cannon House Office Building, Hon. Richard C. Shelby (chairman of the subcommittee) presiding.

Present: Representatives Shelby, Mollohan, Christopher H. Smith, Sundquist, Bilirakis and Rowland of Connecticut.

OPENING STATEMENT OF CHAIRMAN SHELBY

Mr. SHELBY. The subcommittee will come to order.

This morning we are here to receive testimony on the housing provisions contained in S. 1887, a bill introduced by Senator Murkowski, chairman of the Senate Veterans' Affairs Committee. As we know, this bill passed the Senate this past year.

In discussions with the other body last fall, I expressed concern about accepting some of the provisions in Senator Murkowski's bill without the benefit of a hearing over here. I wanted the opportunity to explore its proposed impact, as well as receive the views of the Veterans' Administration and other interested parties on this legislation.

Therefore, as I promised Senator Murkowski, my first hearing is on his bill, which does propose some major and some controversial changes such as the changing of the VA's current underwriting criteria.

We all realize that the VA Home Loan Guaranty Program is not perfect and can be improved, but we must be very careful to ensure that the cure is not worse than the ailment.

I have plans to introduce legislation within 1 or 2 months, and look forward to working with you in this regard.

In the meantime, I am greatly encouraged by your support and endorsement of the program as a whole. I consider this to be a very important program. It not only helps veterans, but it serves to boost the entire economy.

Finally, we have all been concerned about the high rate of foreclosures in the last several years. With the upswing in the economy, hopefully this trend will slow down soon.

I look forward to hearing from all of you this morning.

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At this time, I want to recognize the ranking minority member, the gentleman from New Jersey, Mr. Smith.

OPENING STATEMENT OF HON. CHRISTOPER H. SMITH

Mr. SMITH of New Jersey. Thank you, Mr. Chairman. I appreciate you convening this hearing this morning.

We meet today to discuss the provisions of S. 1887, a bill passed by the Senate last year, which seeks to reform and would improve the Home Loan Program.

In my opinion, Mr. Chairman, the Home Loan Program is one of the finest benefits this nation extends to its veterans. I think it is most wise, therefore, that we meet here today to consider the various proposals to update and to reform this important program.

Specifically, S. 1887 would require changes in the areas of credit underwriting, default and foreclosure procedures, property management, and sales and appraisals. The bill also increases the maximum guaranty amount from $27,500 to $33,500 and expands the special housing adaptations grant.

The Home Loan Program has been tremendously successful in its primary mission, permitting veterans to achieve home ownership and, in most cases, without a down payment. In addition, it has infused nearly $250 billion of investment dollars into our economy.

At the same time, Mr. Chairman, there is room for improvement in certain aspects of the operation of the program. I know members of our committee are very concerned about the devastating effect foreclosure has on each and every veteran family and the negative impact the increasing number of foreclosures has on the loan guaranty revolving fund.

In 1984 the VA paid 25,183 claims. In 1985 the number of claims paid jumped to 26,210. The number of homes in the inventory over the last 5 years has increased by over 150 percent. It may well be that the private sector could better manage and dispose of foreclosed properties.

I am encouraged that the VA is soliciting proposals from the private sector concerning the best and the most meaningful way to test private sector management and disposition of the VA's inventory of foreclosed properties. I also welcome the VA's views and the views of our other guests today on other provisions of S. 1887, Mr. Chairman, especially those conerning the establishment of underwriting criteria for VA loans and property appraisals.

Finally, I want to compliment all of our witnesses today. I have looked through many of their statements, and they are very finely done.

Thank you, Mr. Chairman. I look forward to the testimony.

Mr. SHELBY. The Chair recognizes the gentleman from West Virginia for any comments.

Mr. MOLLOHAN. I have no opening statement, Mr. Chairman.

Mr. SHELBY. Our first witness this morning is Mr. John Vogel, Chief Benefits Director of the Veterans' Administration.

Before you begin, I would like to recognize the gentleman from Tennessee.

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OPENING STATEMENT OF HON. DON SUNDQUIST

Mr. SUNDQUIST. Thank you, Mr. Chairman. I appreciate the opportunities that will be presented today at this hearing and compliment you on that, and also welcome our guests.

I would like to add to what has already been said, particularly in the area of property management and inventory control. I have introduced legislation in the past few months that will seek to reduce the amount of inventory and free up some dollars, and particularly as we get the advice and the expertise from the private sector on how we can reduce the massive inventory, that in many cases is overvalued, on the books by VA.

I have a statement for the record, Mr. Chairman. I would like to submit that.

Mr. SHELBY. Without objection, your statement will be made part of the record in its entirety.

[The prepared statement of Hon. Don Sundquist appears on p. 104.]

Mr. SHELBY. Mr. Vogel, your written statement, will be made part of the record in its entirety. It would therefore be appreciated if you limit your oral remarks to 5 minutes.

STATEMENT OF RAYMOND J. VOGEL, CHIEF BENEFITS DIRECTOR, VETERANS' ADMINISTRATION; ACCOMPANIED BY ROBERT M. O'TOOLE, DIRECTOR, LOAN GUARANTY SERVICE, VETERANS' ADMINISTRATION; AND JAMES KANE, ASSISTANT GENERAL COUNSEL, VETERANS' ADMINISTRATION

Mr. VOGEL. Thank you, Mr. Chairman. It is a pleasure to appear before you this morning to discuss the operation of the Veterans' Administration's housing program. I have with me today Robert M. O'Toole, the Director of the Loan Guaranty Service, and James Kane, Assistant General Counsel.

First, Mr. Chairman, I would like to bring you up to date on the most recent developments in the loan guaranty program. A period of continued economic stability has permitted the VA to reduce the maximum interest rate on guaranteed home loans to 9-1/2 percent on Monday of this week. This is the lowest rate in almost 7 years.

Mr. Chairman, your invitation to appear before the subcommittee requested we specifically discuss the housing provisions contained in S. 1887. This bill would require several changes in the areas of credit underwriting, default and foreclosure procedures, property management and sales, and appraisals. The bill would also expand the special housing adaptations grant and increase the maximum guaranty amount.

In the area of credit underwriting, the bill would require VA to prescribe regulations establishing credit underwriting standards. The standards would include debt-to-income ratios, criteria for evaluating the reliability and stability of the veteran's income, and procedures for ascertaining the monthly income required to repay the loan. Except for the use of debt-to-income ratios and the publication of underwriting standards in regulatory format, VA has already adopted these underwriting standards. The VA does look at factors such as the length and stability of employment, prior use of credit, and the balance that would be available for family support after meeting housing expenses. We believe debt-to-income ratios

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are acceptable as an additional, but not as the exclusive, underwriting tool.

The bill would also require lenders to certify that they have complied with the credit underwriting and loan application standards. Civil penalties against lenders who knowingly and willfully make a false certification are prescribed.

With the exceptions noted in my statement, VA favors enactment of these credit underwriting provisions which are generally consistent with private sector standards.

In the area of default and foreclosure processing, S. 1887 would require the holder of a VA guaranteed loan to notify VA when, in the absence of approved forbearance, the veteran has failed to make two mortgage payments. In the absence of forbearance, holders would be required to initiate foreclosure proceedings after the veteran misses four payments. The bill requires VA to conduct a study and report to Congress on the common factors which contribute to mortgage foreclosures. VA would favor enactment of these provisions in the area of default and foreclosure processing with slightly different time frames. We believe mandatory reporting of defaults should be before the veteran has missed four payments, rather than after the second missed payment. We believe that if mandatory foreclosures were required after five rather than four unpaid installments, VA could concentrate servicing efforts on the cases where it would do the most good.

In the area of appraisals, the bill would require the VA to prescribe a standardized examination and uniform qualifications for appraisers and maintain a uniform list of appraisers. Selection of appraisers would be from the list on a rotating basis. Lenders would be furnished a copy of the appraisal and would be permitted to request a second appraisal from an appraiser of their choice on the approved list. Fee schedules for appraisals would be set at levels not below the prevailing market rate. Except for the provision for a second full appraisal, VA favors enactment of these provisions as they have been or are now being adopted by the VA administratively.

S. 1887 contains three provisions concerning property management and disposal. First, VA would be required to furnish information to real estate brokers and other professionals on the availability of VA-owned properties. VA presently furnishes information on properties to real estate brokers and others in the industry.

Second, the bill would establish an 18-month pilot program under which VA would contract with one or more commercial organizations for management and disposal of a representative sample of 10 percent of the VA inventory of properties. We are currently soliciting proposals from the private sector concerning the best means for conducting such a program. VA favors enactment of these provisions.

The third item requires establishment for 3 years of a task force to develop and exchange information and to advise the Administrator on ways to improve management and disposition procedures. VA opposes this provision, as we believe a statutory requirement is not the appropriate means of establishing a VA task force.

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Mr. Chairman, S. 1887 would raise the maximum guaranty amount for conventionally built housing to $33,500. VA opposes this provision.

The bill would also provide for expansion of the special housing adaptations benefit for severely disabled veterans. VA favors this provision.

Mr. Chairman, we have made encouraging progress with property sales during 1985, and expect to continue this sales trend during 1986 to reduce our inventory and to minimize the demands of the loan guaranty revolving fund. In March 1984, we reached our highest number of properties in title, 22,316. By the end of fiscal year 1985, we had reduced that figure to 17,611.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or members of the subcommittee may have.

[The prepared statement of Mr. Vogel appears on p. 105.]

Mr. SHELBY. Thank you.

Since you support the debt-to-income ratio contained in Senate bill 1887, how would you administer this change in ploicy?

Mr. VOGEL. Mr. Chairman, we would have to seek advice from commercial lenders and from FHA on what the proper ratio would be. We would use that as an additional tool, together with the residual approach, the method now currently being used.

The difficulty in establishing a ratio would be there is really no comparable program—nobody else making 100 percent loans. It would be a difficult task, but one that we would tackle.

Mr. SHELBY. The basic bill, as you have alluded, says that it should reflect the underwriting principles and practices of commercial lending institutions with respect to loans with comparable security arrangements. What is a comparable security arrangement, considering the government guarantees $27,500 or 60 percent of the loan?

Mr. VOGEL. There is really nothing that is wholly comparable, Mr. Chairman. It would be as near as we could get to lenders who would make loans without down payment.

Mr. SHELBY. On December 17, this past year, 1985, the Washington Times ran an article stating that the VA had imposed a minimum 10 percent increase on the income needed to qualify for low-interest VA loans. If you can do this without legislation, don't you have the authority under the law to specifically change your underwriting criteria?

Mr. VOGEL. Yes, Mr. Chairman, we do.

Mr. SHELBY. Okay. Which part of the statement was written by the Office of Management and Budget? Did they have some input into this?

Mr. VOGEL. They did, Mr. Chairman. The only changes were small editorial ones. One additional feature was they asked that we include a description of the legislation which the administration will propose later on.

Mr. SHELBY. Many of the proposals under Senate bill 1887 can be done administratively. Do you currently do any of them or are you considering doing some of the proposals that are contained in S. 1887?

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Mr. VOGEL. Mr. Chairman, we advertised in the Commerce Business Daily on February 21, and described our intent to enter into an 18-month pilot project for the management and disposition of properties in inventory. We have also entered into an agreement with the National Association of Realtors on getting their advice and assistance in marketing properties, making the dissemination of information and the advertising more effective. We have done those things administratively.

Mr. O'Toole, is there anything you care to add to the administrative arena?

Mr. O'TOOLE. No, sir.

Mr. VOGEL. So we have done those things, Mr. Chairman.

Mr. SHELBY. Mr. Vogel, I have been informed that 12 to 13 percent of the VA home loan foreclosures involved assumed loans. I would like to know whether in a normal case where the veteran has not sought to obtain a release of liability the VA makes any judgment on the credit worthiness of the person assuming the loan?

Mr. VOGEL. Mr. Chairman, we do not.

Mr. SHELBY. Would you welcome such an opportunity? Do you think it might reduce claims on such loans in the future?

Mr. VOGEL. We would consider that, sir, certainly. It would be apt to increase the administrative burden of administering the total loan guaranty program.

Mr. SHELBY. Isn't a veteran well advised to insist on a release of liability whenever he or she sells the property which is security for the loan?

Mr. VOGEL. Yes, Mr. Chairman, they are.

Mr. SHELBY. But in a lot of cases, it just doesn't happen, does it?

Mr. VOGEL. No, sir. When the loans are originally made, they are notified that that is a right that they enjoy. Frequently, however, the properties are conveyed without them receiving a release, or asking for one.

Mr. SHELBY. In connection with your pilot program to contract out the management of a certain portion of foreclosed properties, can you discuss what controls will be used to ensure that the evaluation of the pilot program will fairly and accurately test the potential of savings to taxpayers?

Mr. VOGEL. We have just begun that project, Mr. Chairman. We will see what will be the nature and the kind of response we receive from the private sector. In discussions we have had, the plan would be to run a cohort group against that 10 percent part of the inventory to determine whether or not it is cost beneficial to continue such an effort.

Mr. SHELBY. Have you ever considered coordinating your sales activities with other governmental agencies? I have been told that in 61 days 3 auctions were held in Houston by 3 separate agencies, and that this caused a glut in the market. Are you aware of that?

Mr. VOGEL. Mr. Chairman, I was in Houston for the VA auction. I know that they had two other auctions there. I don't know that there were more properties offered than could readily be marketed, because we disposed of 249 properties in 2 days, and the other two auctions did very well. The inventories of properties held by governmental and other agencies are very, very large. Our inventory

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in Houston exceeds 2,000, that are in title. Including both properties to which we have title and others in our possession to which VA has not yet acquired clear title, the number would be 4,500. So there is plenty of property to be sold in the Houston area.

Mr. SHELBY. I know that. I was in Houston with my staff back in January, and it is a real tough situation there.

Mr. VOGEL. It is very heartbreaking.

Mr. SHELBY. It is probably going to get tougher with the decline in the price of oil lately.

Mr. VOGEL. It certainly seems that way, sir.

Mr. SHELBY. It won't be improved too much.

What is the current status of VA's overall assessment of its debt collection activities? When will your study be completed?

Mr. VOGEL. We anticipate to have in place nearly all of the administrative aspects of improving our total performance in debt management by July of this year.

I apologize for the tardiness in responding to your inquiry, sir, that you just received yesterday on what we are doing, the VA is doing, in the area of debt management. The letter was certainly not received, I don't imagine, in sufficient time for it really to be digested.

But we have undertaken a number of initiatives, including a referral of debtors to Federal reporting agencies. We have offset from IRS returns those cases that we have rendered to judgment. The matches we are doing are working very, very well. We have installed 800 numbers in our activities in St. Paul so that debtors can more easily get in touch with us and understand the nature of their debt. We have received a couple million dollars from repayment plans. We also instituted what we consider to be a reasonable write-off policy so that we are not expending a great amount of our administrative time and resources on debts that are very likely not to be collected.

There are a number of initiatives in the whole area of debt management that are covered in the letter that was sent to you yesterday, Mr. Chairman. We would be pleased to discuss those in greater detail when you and your staff have an opportunity to review the contents of it.

Mr. SHELBY. It might be well to call an additional hearing to discuss this important issue in the near future.

Mr. VOGEL. Yes. We would be pleased to do so.

Mr. SHELBY. Mr. Vogel, today in your testimony, you discussed the VA's emphasis on selling properties as a means of reducing the need for further appropriations for the revolving fund. You did not discuss loan sales, although this is clearly an important source of revenue for the fund as well. Can you explain why the VA budget documents project the VA will be holding nearly $1.3 billion in vendee loans in the fiscal year 1987, a figure which is $250 million higher than your 1984 holdings? Would the increased loan sales also help the fund's financial position about which we are all concerned?

Mr. VOGEL. Yes, sir, increased loan sales certainly would. In 1984 there was such pressure on the revolving fund that we sold some low-interest loans that we probably would not have otherwise sold, we were so pressed for cash. It is not a very good base year to make

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a comparison. In 1985 our vendee loan sales were at a very high level. We continue to look for every opportunity to market from the vendee loan portfolio.

Mr. SHELBY. Do you know if the President has signed the housing bill we sent down last week?

Mr. VOGEL. I hadn't heard, sir.

Mr. SHELBY. Do you know, Mr. O'Toole?

Mr. O'TOOLE. No, I don't, Mr. Chairman.

Mr. SHELBY. That has nothing to do with this hearing, but we are all anxious about it.

The Chair recognizes the gentleman from New Jersey, Mr. Smith.

Mr. SMITH of New Jersey. Thank you, Mr. Chairman.

Mr. Vogel, Mr. Kane and Mr. O'Toole, welcome to the committee. I have a number of questions I would like to ask you.

First of all, the VA seems to be saying that there will be no need for appropriations for the guaranty for the revolving fund, at least in the fiscal year for 1987. Is that conclusion based on a proposal for a user fee increase or some other kind of funding mechanism?

Mr. VOGEL. That proposal did not include the increase in the user fee, as that has not yet been enacted.

It does, however, reflect the income from a 1 percent user fee.

Mr. SMITH of New Jersey. Based on a 1 percent user fee, then your best guess is that there will be no need for an appropriation?

Mr. VOGEL. That is correct, sir.

Mr. SMITH of New Jersey. I did note in your testimony on page 3 that an increase in the funding fee legislation would soon be sent up to the Congress. I think that in light of the past opposition of this subcommittee and the full committee, and Senator Murkowski's statement yesterday before the VFW presentation of proposals that he, too, now was not for increasing the loan origination fee, that probably there will be no action by the Congress in that area. I just wanted to make sure that not asking for an appropriation was not predicated on any increase in the user fee.

Can you tell us, Mr. Vogel, why the foreclosure rate of VA guaranteed loans is still so high?

Mr. VOGEL. The general nature of the economy would be the most bald and unsupported answer. However, we find that the defaults are running high at five of our offices. Forty-one percent of all foreclosures come under the jurisdiction of our regional offices in Denver, Los Angeles, Cleveland, Houston and Chicago. It is a reflection of the nature of the economy in those areas, oil in the Houston area and also in Denver, and general manufacturing. We have improved quite a bit in foreclosures in parts of the upper Midwest. We now see Houston, Los Angeles and Denver very high in foreclosures.

Mr. SMITH of New Jersey. So the foreclosure is tracking the economic downtrend in certain parts of the country.

Mr. O'TOOLE. That's right. But we notice that some areas have improved over the last year. I think we see improvements in places like Alabama and New Jersey, as well as in Tennessee and Illinois. So we see some areas that are improving. Our feeling is that certainly at the end of this year, we are going to see an improvement in the default area.

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Mr. SMITH of New Jersey. As a percent of aggregate loans, is the default rate going down, because the loan volume is certainly going down.

Mr. O'TOOLE. If you look at the most recent information we have for the defaults reported in the month of January, defaults were down. If you look at a period in 1985, even calendar 1985, the defaults are up. But if you look at that 1-month period in January, the defaults are down. So we are optimistic that it is going to continue that way.

Mr. SMITH of New Jersey. Mr. Chairman, I share your concern that any VA pilot program be fairly conducted and done in a very meaningful way.

It is my understanding that the VA does not consider interest costs that the government is foregoing because of the funds tied up in a particular property. Private companies generally do consider interest costs in similar situations. Will the pilot program test consider interest costs?

Mr. VOGEL. Yes, they will, sir.

Mr. SMITH of New Jersey. Thank you.

I have a few more questions, Mr. Chairman.

Under current law, the VA is required to finance—at least this is my understanding—at least 60 percent of the homes sold through the property management disposition program. This constraint may decrease the VA's ability to move its inventory in properties. This practice also ties up monies available to the fund and may thereby decrease the VA's ability to make loans to veterans.

Has the VA considered the fact that operating under this constraint may not be cost effective for the property management program?

Mr. O'TOOLE. We certainly have emphasized to our field officers the need to meet the requirement to sell a minimum of 25 percent of the houses for cash.

Mr. SMITH of New Jersey. That is being exceeded, isn't it?

Mr. O'TOOLE. Yes, it is. We are over that. This year we are runing high. We are in the 35 to 36 percent range.

Our feeling is that that has helped. In infuses money into the fund earlier than it would otherwise, because we don't have those vending loans on the books that have to be sold sometime in the next year or so.

Mr. SMITH of New Jersey. As you well know, and as I heard, from some of the people in the VA, the rate of loan applications has increased substantially since the interest rate has dropped and again was dropped last Monday to 9.5 percent. Do you feel that you have adequate resources in your regional offices to handle this increased volume?

Mr. VOGEL. Mr. Smith, we are faced with a real test. Our resources are very strained now. We will do the very best we can. We have diverted to the extent we can personnel from other functions in our regional offices. What makes it especially difficult is that the application side of the house is very, very busy and also loan servicing and property management in very many areas have taken a lot of our resources.

The only thing I can really say is we will do the very best we can. We do, however, fear, some slippage in the timeliness of our

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being able to process loan guarantee workload based on the volumes we are seeing now.

Mr. SMITH of New Jersey. To handle this load are you comtemplating any steps in the area of overtime or other kinds of means?

Mr. VOGEL. Mr. Chairman, to the extent that we can, the resources available to the Department in personal services are diminished because of recent public law and we have taken the steps we can to provide some amount of overtime funds, but we don't think it has been as much as we've been accustomed to having available to process the extraordinary workload we are now experiencing and anticipate seeing in the future.

Mr. SMITH of New Jersey. Mr. Kane, could you tell us when the Justice Department may give its views about the use of fee basis attorneys for foreclosure cases?

Mr. KANE. We met with them Monday morning in Mr. Ivers' office and again expressed the enthusiasm for this authority. They again asked us to give them some statistic to show where we're having our problems, but, quite frankly, I can't tell you when they will give us that authority.

Mr. SMITH of New Jersey. One final question, Mr. Vogel, if you could.

I notice in your testimony that you point out on page 5 that most defaults self-cure after the second missed payment. What percentage of defaults self-cure after that payment? Do you have any stats on that, because apparently that's one of deficiencies of the Murkowski bill.

Mr. O'TOOLE. Well, based on our current experience, we get default notices after the third missed payment. The cure rate is around 82, 83 percent right now. Our estimate is that if we got reports after two payments are missed, the cure rate would be over 95 percent.

Mr. SMITH of New Jersey. Thank you. Thank you, Mr. Chairman.

Mr. SHELBY. The Chair recognizes the gentleman from Florida, Mr. Bilirakis?

Mr. BILIRAKIS. Thank you, Mr. Chairman. I have a very short statement, sir, and I would ask unanimous consent to insert it in the record.

[The prepared statement of Hon. Michael Bilirakis appears on p. 117.]

Mr. BILIRAKIS. Mr. Vogel, do you see the recently reduced interest rate as something that will help reduce foreclosures by making purchasing a home less expensive?

Mr. VOGEL. Yes, sir. I think it will be easier for us to sell out the inventory. Also, the opportunity for veterans to refinance from higher interest rates 13, 14 percent, even 11-1/2 now.

Mr. BILIRAKIS. Do we see much of that happening now, the refinancing?

Mr. VOGEL. Yes, sir. I think the current rate of refinancing is about 20 percent, so that it is a trading in of high interest rate mortgage for a lower one.

Mr. BILIRAKIS. We have held at least a couple of other hearings on this subject that I can think of. I know we had one in Alabama with the chairman. Do we attribute much of the problem that we

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have with these foreclosures to the high interest rates that we have had over the past few years?

Mr. VOGEL. I don't know what percentage it would be, sir. Clearly it has been a cause of a number of them. We're pretty far away from that being an influencing factor since the interest rates now have been down to a more tolerable level in the last few years.

Mr. BILIRAKIS. Would that attribute the problem to some degree to maybe a failure, if I can use that word, on the part of the VA to apply maybe the type of debt-to-income ratio that is applied in the private sector?

Mr. VOGEL. Mr. Bilirakis, I think one could always improve underwriting. There is always room for improvement there. If there was a little more clairvoyance or ability to predict the future, especially the economy, the economy in certain portions of the country would be in a better position.

I think that underwriting ratios would perhaps assist our loan processors in making good underwriting decisions and good decisions on loans. Most of the studies that have gone on and have been conducted on the rate of default and foreclosure are predicated on examining the loans that went bad, not the loans that are still good on the books. But, clearly I think there is always room for improving underwriting standards.

We, in the last year, have seen on the loans processed in the office, not the automatics, a 40-percent rise in the rate of rejection on loans and we are trying as best we can to tighten underwriting. Keep it in mind that each veteran is entitled to individual consideration, that we think it's a valuable benefit and while it is of no benefit to put the veteran in a house he or she cannot afford, we want to assist in every way we can to make the program, this very valuable benefit program, operate in the manner in which it was designed.

Mr. BILIRAKIS. You would support the debt-to-income ratio proposed in Senate bill 1887 in determining eligibility?

Mr. VOGEL. We believe that, together with using residual value, would be a helpful tool to the people who do the underwriting in our regional office.

Mr. BILIRAKIS. And still it would not be too unfair or onerous to the veteran, is that correct?

Mr. VOGEL. That's correct, sir.

Mr. BILIRAKIS. In your testimony at page 10 of your formal testimony, you said that during the last 3 fiscal years the VA has sold more properties than were on hand at the beginning of each fiscal year. We presently have 19,655 properties on hand and we project that 28,035 will be sold during fiscal year 1986. That, in other words, what are we estimating is that the influx of properties to be sold would be approximately 20,000 every year, is that right?

Mr. VOGEL. Yes, sir.

Mr. BILIRAKIS. So, if we estimate that we will sell 28,000 during fiscal year 1986 and have 19,000, or let's say 20,000, on hand at the beginning of that year, we would be selling 8,000 of the approximately 20,000 we would estimate were coming in.

Mr. VOGEL. That's correct.

Mr. BILIRAKIS. Therefore, improving that situation.

Mr. VOGEL. Yes.

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Mr. BILIRAKIS. So we really don't ever exceed approximately 20,000 per year as far as inventory is concerned, is that right? I mean, its a general question, with a general answer.

Mr. O'TOOLE. I'm not sure. Our projection is that at the end of fiscal year 1986 we'll have fewer properties on hand than we had at the beginning of 1986.

Part of that is our hope and our estimate that the number of acquisitions will also decline.

Mr. BILIRAKIS. May I continue, Mr. Chairman?

Mr. SHELBY. Yes.

Mr. BILIRAKIS. These are areas that I know concern you, Mr. Chairman, because we've talked about it before.

In terms of reselling these properties, what are we reselling them for in relation to what they cost the veteran some few years before?

Mr. O'TOOLE. In fiscal year 1985, on an average, we lost a little over $14,000 per property. That is the amount to compare with what we paid the lender, plus the amount that we put in it, repair costs and paying real estate commission and all those things.

So far this year that amount has decreased a little bit, so we are just below the $14,000 amount. We also noted that our holding time has decreased a little bit.

Mr. BILIRAKIS. It has decreased. Well, why are we losing so much money on the average, Mr. O'Toole? Why is the taxpayer losing so much money.

Mr. VOGEL. One of the factors is that we have been accustomed to seeing real estate values appreciate generally all over the country. We are now seeing a depreciation in value. The amount at the time of foreclosure appraisal is measured against the appraisal made at the time the property was acquired by the veteran. They are absolutely down and especially in areas such as Houston. It is one of the reasons for the larger claims paid.

Mr. O'TOOLE. Also, one of the big factors in there, the $8,000 or $9,000 out of the $14,000 is the unpaid interest cost at the time of foreclosure. If its a 100 percent loan, the unpaid interest for 8 or 9 months at 12 or 13 percent is a cost that is never going to be recovered in the resale of the property, but one still included as a loss to us.

Mr. BILIRAKIS. For my last point, and Mr. Chairman, we've talked about this also before because it's a bone of contention with me, and I'm very much concerned about preserving this program for the veterans—this is one of the reasons why it is such a bone of contention with me—I have a very strong opinion that the appraised value by the VA appraisers is ordinarily as a general statement higher than the actual values of those properties. At least that has been my experience down in my area.

We have gone, I know, with the chairman personally and we have looked at some of these properties in some of those areas. I don't really remember if he was as shocked as I was, about the appraised value of some of those properties. Many of them are band boxes literally, and I frankly would attribute these losses more to that than anything else.

Yes, there are some depressed areas in the country, Houston, as you mentioned and a few others like that; but, in general, Florida

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is not depressed and I would submit to you that there are losses as far as Florida properties are concerned, too. If anything, property in Florida generally will go up, except the property that I may purchase. But, basically I think that's a true statement and yet that is not the experience, I don't think, that we've been having as far as resale of VA appraised property is concerned.

So, that's a big bone of contention with me and I am not sure really what we can do to help you all in that area, but I would appreciate hearing from you further at another time on what sort of legislation or support maybe we can give you as far as the appraised value of these properties are concerned.

I feel that the developers and the contractors would still work through the VA program, even if we had realistic appraisals.

I have nothing further, Mr. Chairman.

Mr. SHELBY. If the gentleman from Florida would permit me, I share some of your thoughts regarding that. When we were down in your district looking at some properties they seemed to me, as a layman, to be much overpriced. I also received reports on Houston properties during my last visit in January. They have a heavy inventory. The area was booming several years ago, and prices of houses are just like stock. They go up and down and the market price will determine its worth. For instance a property valued at $85,000 3 years ago might not bring $65,000 today. Although it is not in bad shape, it's just the market conditions.

I think you realize you have to react to it. I know, I have talked to you about it before, Mr. O'Toole.

Mr. O'TOOLE. Yes, Mr. Chairman.

Mr. SHELBY. It is a tough situation because as you look at your books you see your inventory in which you've got your money invested but the values are fluctuating aren't they?

Mr. O'TOOLE. They certainly are and we appreciate the fact that you and other members of the committee recognize that.

Mr. SHELBY. The gentleman from New Jersey has a final question.

Mr. SMITH of New Jersey. Thank you, Mr. Chairman.

Mr. Vogel, it has been suggested that one reason the VA holds the home in inventory for excess amounts of time before selling it is because guidelines issued by the VA provide that if the home is resold at a loss, then the veteran must make up the loss to the VA. Can you comment on that apparent pro-veteran disincentive? Some of the testimony we will receive today makes that point.

Mr. O'TOOLE. I read that testimony that we'll be receiving later on today and I'm not sure where that information comes from. The amount that is considered as an overpayment and attempts were made to collect that from the veteran or the assumer is determined that at the time of foreclosure. The length of time that it might take us to dispose of that property is not in any way considered in that amount that is eventually charged back to the veteran.

Mr. SMITH of New Jersey. I appreciate that clarification.

Mr. SHELBY. Gentlemen, thank you for appearing here before us. If we have any questions from staff or counsel we will submit them to you.

Mr. VOGEL. Thank you very much, Mr. Chairman.

Mr. O'TOOLE. Thank you very much, Mr. Chairman.

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STATEMENTS OF RONNIE J. WYNN, PRESIDENT, COLONIAL MORTGAGE CO., ACCOMPANIED BY BURTON C. WOOD, LEGISLATIVE COUNSEL, AND WILLIAM E. CUMBERLAND, GENERAL COUNSEL; DAVID SMITH, PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS, ACCOMPANIED BY ROBERT BANNISTER, SENIOR STAFF VICE PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS; AND NORMAN J. GOLDBERG, CHAIR, REAL ESTATE, FINANCE COMMITTEE

Mr. SHELBY. Our next panel is going to be Mr. Ronnie Wynn. He is president of Colonial Mortgage Co., and he is representing the Mortgage Bankers of America. He will be accompanied by Mr. Burton C. Wood, legislative counsel and Mr. William E. Cumberland, general counsel, Mortgage Bankers of America. Mr. David Smith, president of National Association of Home Builders. He will be accompanied by Bob Bannister, senior staff vice president and Mr. Norman Goldberg, chairman, Real Estate Finance Committee, National Association of Realtors.

Gentlemen, please take your seats at the table.

If I may, I'm going to call on Mr. Smith first. I understand he has a tight schedule. Your written testimony will be made part of the record in its entirety, therefore you may wish to sum up your testimony.

Mr. Smith?

STATEMENT OF DAVID SMITH

Mr. SMITH. Thank you, Mr. Chairman, and members of the subcommittee.

My name is David Smith and I am the president of the National Association of Home Builders and I have with me this morning Bob Bannister, NAHB's senior staff vice president.

It is a pleasure to appear before you, Mr. Chairman, and to thank you and the members of this subcommittee for leading the effort to avert the shutdown in the VA Home Loan Guaranty Program by raising the loan ceiling last week. I don't really have to tell you how many phone calls we received in our association about this problem. We really appreciated your efforts.

We urge that you work closely with the Veterans' Administration to recommend a commitment level sufficient to meet the loan guaranty demand for fiscal year 1987.

I am pleased to present our views on the President's budget and Senate bill S. 1887 as they affect the VA Home Loan Guaranty Program.

The President's fiscal year 1987 budget calls for an increase in the VA user fees from 1 percent to 3.8 percent by fiscal year 1990. The NAHB views this fee, as well as the user fees proposed for FHA, Ginnnie Mae, Fannie Mae, and Freddie Mac, as part of a continuing effort by the administration to restrict essential Federal credit programs.

We oppose all of these fees because it would exert upward pressure on interest rates, undermine the operations of the secondary market, and increase the cost of mortgage credit to the homebuyer.

Raising the fee to 3.8 percent per month will increase the veterans' monthly mortgage payment almost $16 a month if the fee is

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amortized. If he pays the additional fee up front, he will need an extra $1900 in cash at closing.

Furthermore, higher fees on the VA program could very well result in lower revenues for the Government to cause a reduced program use. The Congressional Budget Office has estimated for each 1 percent increase in the VA fee new loan originations would decrease by approximately 5 percent.

In addition, we believe that no appropriation will be necessary to operate the VA Home Loan Guaranty Program next year. The administration's proposal to increase the fee is simply an attempt to raise revenue rather than to maintain solvency in the program. This amounts to no more than a selective tax burden on homebuying veterans.

Mr. Chairman, the administration intends to once again seek authority for negotiated interest rates on VA guarantyd mortgages. This would eliminate the administratively set VA interest rate and allow for a negotiated rate between the buyer and the seller, which is the system currently in use under FHA.

The NAHB supports the dual system of a floating FHA rate and an administratively established VA rate, which has provided a benchmark for the mortgage finance industry and the homebuyer and wants this system to be continued in the future.

I appreciate the opportunity to comment on Senate bill S. 1887, the VA legislation passed last year by the Senate. Title III of this bill provides for changes in underwriting guidelines, appraisal, policies, and property disposal plans. While we support the overall concept of reducing losses in the program, we strongly oppose the establishment of debt-to-income ratios and feel that lenders would be allowed to select qualified appraisers from a list chosen by the VA.

We support the provisions that first, raise the loan guaranty maximum from $27,500 to $33,500. Second, provide for apprenticeship on-the-job training, and third, require detailed justification for the consolidating of Veterans' Administration offices.

We oppose the establishment of debt-to-income ratios because a number of credit-worthy veterans, including many first-time homebuyers, will be denied their VA entitlement. There is no evidence that the present residual system of underwriting is in itself a problem. This system focuses on the balance of income available for family support after the perspective mortgage payment and other known obligations have been taken into account.

What is needed is the use of current, realistic data on costs, careful verficiation of borrowing information, and a consistent application of the underwriting guidelines already in place.

Mr. Chairman, we support the increase in the loan guaranty maximum from $27,500 to $33,500. Since 1975, the sales price of new single family homes has increased at a much greater rate than the maximum loan guaranty. The average sales price of a new home went from $42,600 in 1975 to $100,600 in 1985. That is a 136 percent increase. The loan guaranty maximum increased only 57 percent during the same time period.

You may also want to consider the establishment of a mechanism that would automatically trigger an increase in the loan guaranty maximum as home prices rise.

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We would also like to see a formula established to provide differentials for high-cost housing areas similar to the FHA.

Mr. Chairman, thank you for the opportunity to testify before you today. Once again your swift and effective action in raising the VA guaranty ceiling is appreciated by homebuyers and home builders throughout the country. You have reaffirmed our faith in the ability of Congress to move quickly with a situation that requires action. I would be pleased to respond to any questions that you may have.

Thank you.

[The prepared statement of Mr. Smith appears on p. 119.]

Mr. SHELBY. Mr. Goldberg?

STATEMENT OF NORMAN J. GOLDBERG

Mr. GOLDBERG. Good morning, Mr. Chairman.

My name is Norman Goldberg and I am a realtor from South Orange, NJ.

I am also Chair of the National Association of Realtors Real Estate Finance Committee and on behalf of more than 700,000 members of the National Association of Realtors, I want to thank you and the members of your subcommittee for the opportunity to present our views on the Veterans' Administration Home Loan Guaranty Program.

As I understand it, Mr. Chairman, you have asked the witnesses to focus their attention on the housing provisions of S. 1887, Senate legislation entitled "The Veterans' Compensation and Benefits Improvements Act of 1985." I and members of the Government Mortgage Programs of the Subcommittee of the National Association of Realtors have reviewed those provisions and wish to offer the following comments.

The first section of the bill's housing provision, Section 302, requires the VA Administrator to establish tighter credit underwriting standards to be applied to all VA loan guaranty applications, including specific debt-to-income ratios.

Mr. Chairman, the National Association of Realtors supports the establishment of tighter credit underwriting standards for a VA loan. Although we feel that the establishment of tighter credit underwriting standards is a positive step toward preventing future VA foreclosures, we view the bill's requirement that these standards reflect those of commercial lending institutions, with comparable security arrangements inappropriate.

Rather than requiring standards of the conventional market, we recomomend the VA and the VA's underwriting criteria reflect those of the FHA, a comparable federal housing program.

With regard to the loan guaranty amount, since 1980 the VA loan guaranty amount has been $27,500. Although there has been no increase in the loan guaranty limit during the course of the past 6 years, the median house price has risen by approximately 22.3 percent. Currently there is a growing number of areas nationwide where the Veterans' Home Loan Guaranty Program is being outpriced by housings costs. A glaring example of this problem is in California, where the largest population of veterans, almost 3 mil-

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lion, reside, and where housing costs are 55 to 60 percent above the Nation's average.

The National Association of Realtors supports the increase of the loan guaranty amount to $33,500 contained in the bill.

We feel that the time has come to change the limit to provide for an increase that is more realistic with today's housing cost trends.

With regard to default notification and foreclosure procedures, the section of the bill revises the VA's existing default in foreclosure procedures and in general the National Association of Realtors supports those improvements.

We are especially mindful of the need to address default cases in a prompt manner such as mandated in the bill's provisions requiring the VA to notify veterans who fail to make 2-full monthly payments; however, it is our hope that the VA will make every effort to cure the loan problems before issuing a default.

The National Association of Realtors supports the remaining provisions in this section and particularly the requirement that VA submit a report to Congress on the common factors which contribute to VA loan foreclosures.

With regard to appraisals, the National Association of Realtors agrees with the efforts to establish within the VA appraisal process uniformity of guidelines and qualifications for its appraisers. A realtor task force which met last year to review the VA program in its entirety and it specifically pointed out the need for the VA to provide more standardized appraisal guidelines and better certification techniques for qualifying a VA appraiser.

With regard to the section furnishing information to real estate professionals, S. 1887 includes a provision which would require the VA Administrator to furnish information regarding the availability of VA acquired property and the VA's procedures for disposing of such property to real estate brokers and other real estate sales professionals.

The National Association of Realtors supports this effort, recognizing that both parties have only to gain from increased communication and dissemination of property information.

The National Association of Realtors supports the provision in S. 1887 to organize an industry-wide task force to work with the VA for 3 years to review the current structure of VA's management and disposal program.

S. 1887 calls for the establishment of a pilot program to determine the effectiveness of contracting with a commercial organization for the management and disposal of VA's inventory properties. The pilot program would be conducted over 18 months and would encompass 10 percent of the VA's total inventory.

As you may know, Mr. Chairman, the National Association of Realtors has been working with VA and FHA for over 1 year to develop a cooperative effort by which realtors and other real estate professional across the country can assist these agencies to dispose of their properties.

The program involves the establishment of local-regional realtor advisory councils which will meet and work with FHA and VA to develop a method by which realtors can assist both agencies to sell their inventoried properties depending on the preferences, needs and resources of the local board and local agency offices.

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Seven program sites have been selected to implement the program, and they include the following: Chicago's Metropolitan area, Miami-Ft. Lauderdale, West Palm Beach, Washington, D.C., Indianapolis, Des Moines, Dallas-Ft. Worth, and Northern California, which includes San Jose, Sacramento, Oakland and Fresno.

The National Association of Realtors is excited and enthusiastic about this cooperative effort to aid VA to dispose of its properties. We believe that increasing the involvement of local real estate professionals who are interested in and committed to the property disposition sales program can only increase the exposure and resulting sales of VA's inventoried homes.

Because we are confident in the ability of this program to increase VA's property sales, we do not believe that the Senate bill's proposed pilot program is necessary. However, if Congress deems that such a test is needed, we strongly believe that our program will perform better and achieve its goals in a satisfactory manner.

We recommend that the way to exposing and selling VA properties is through wider real estate professional involvement; not less.

One last comment, and that is that as the previous speaker also mentioned, our association is strongly in opposition to the proposal for the raise in user fees.

Thank you, Mr. Chairman. I will be happy to submit to any questions.

[The prepared statement of Mr. Golberg appears on p. 133.]

Mr. SHELBY. Mr. Ronnie Wynn.

STATEMENT OF RONNIE WYNN

Mr. WYNN. Mr. Chairman and members of the subcommittee, my name is Ronnie Wynn. I am president of Colonial Mortgage Co. of Montgomery, AL., and chairman of the Legislative Committee of the Mortgage Bankers Association of America.

MBA appreciates the opportunity to appear before you today to testify on the VA Home Loan Guaranty Program. MBA believes that the legislative proposals contained in S. 1887, which are the focus of this hearing, contain positive suggestions for the improvement of the operations of the program. We also have some other suggestions to improve the program.

Before addressing these issues, Mr. Chairman, I would like to take this opportunity to thank you for introducing and achieving passage of legislation that replaces the Gramm-Rudman-Hollings ceiling on the VA Home Loan Program during 1986. Congress' prompt and effective action saved the program from an immediate shutdown.

Under current circumstances, any review of the VA Home Loan Guaranty Program must begin with a consideration and a rejection of the increase in the guaranty fee proposed by the admini tration in its 1987 budget. The President's 1987 budget proposes to increase the VA guaranty fee to 3.8 percent by 1990.

During his campaign and as recently as last week, President Reagan said that he would not increase taxes. With this proposed fee increase, he contradicts himself. The proposed fee is not only a tax on veterans seeking to own a home, but is contrary to the whole purpose of the VA Home Loan Program.

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The proposed fee is more than a tax, it is an indirect effort to undercut the decision of Congress, reviewed and revised as recently as 1 year ago, to recognize veterans' service by helping veterans to own their own homes. If additional taxes were needed they should be broad-based and not targeted to veterans. MBA urges that the administration's proposed increase in the VA guaranty fee be rejected.

MBA believes that the VA Home Loan Guaranty Program is an excellent one, and that the VA generally has operated it well. However, it is not perfect, and it can be improved. In 1985, MBA created a special task force to assist the VA in adapting the Home Loan Guaranty Program to current economic conditions of a relatively low rate of inflation of the sales prices for homes.

Several of the provisions of Title III of S. 1887 would statutorily mandate changes in the Home Loan Guaranty Program similar to the changes the MBA's task force recommended that the VA adopt administratively. MBA believes that the ideas are good ones, including a move to more traditional loan underwriting standards, tighter response to default situations, and more lender control of appraisals. But MBA is concerned that a statutory mandate may be too inflexible a method of implementing the necessary changes.

We, of course, fully support the provisions of S. 1887 which raises the maximum guaranty amount from $27,500 to $33,500. With regard to Title III of S. 1887, we believe certain specific changes that should be made. Lenders should be subject to penalty fines only when they make certifications knowing them to be false. The default notice timetable should begin at 90, not 60 days delinquency. A broader "safety valve" should be allowed for the automatic foreclosure procedure. Finally, lenders should be allowed a greater choice in selecting appraisers.

There are some additional adjustments that we believe should be made to the Home Loan Guaranty Program. The VA should be authorized to guaranty adjustable rate mortgages with such limits, if any, as the administrator deems necessary. Also, the VA should be authorized to guaranty mortgages with interest rates that are negotiated between borrower and lender, and not be limited to interest rates that are administratively set. With respect to vendee loans, the administrator should be freed to make the best possible deal when selling properties acquired by the VA.

Mortgage bankers are proud of the fact that they have participated in making a program work that has helped 11.6 million American veterans become homeowners. We appreciate your concern, Mr. Chairman and members of the subcommittee, that the program continue to be operated in the most effective way possible.

[The prepared statement of Mr. Wynn appears on p. 148.]

Mr. SHELBY. I have several questions that I would like to ask.

Mr. Smith, what effect would raising origination fees have on housing starts immediately?

Mr. SMITH. Any time you raise the fees you see people get priced out of the marketplace. I don't have the exact number; we will be glad to supply that information for the record.

Mr. SHELBY. You will furnish that for the record?

Mr. SMITH. Yes, Mr. Chairman.

[Subsequently, the following information was provided:]

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LOSS OF HOUSING STARTS DUE TO VA FEE INCREASE

Based on estimates developed by the Congressional Budget Office, an increase in the VA user fee from 1 percent to 3.8 percent would depress new VA loan originations by 14 percent. Based on NAHB's estimate of 90,300 new VA starts in 1985, a 14 percent drop would cause a loss of 12,642 starts.

In addition, assuming no alternative financing is available for these veterans, the increased user fee would cause the loss of 22,237 jobs and $1.049 billion in total economic impact.

Mr. SHELBY. Would you comment on FHA's formula which provides differentials for high-cost housing areas?

Mr. SMITH. We totally support the FHA formula. I will give you my personal experience. I have built, most of my life, north of Washington, D.C., in the Maryland area. We constantly had a problem with the fact that we were in a high-cost area right here in the nation's capital. It does not allow the veteran to participate in the program, because if we cannot reduce house costs enough for them to participate, they are being denied a benefit that they are certainly entitled to. This occurs not only in the Washington area, but in many high-cost areas across the United States.

Mr. SHELBY. Mr. Goldberg, when will you officially start working with the Veterans' Administration on your Property Disposition Test Program?

Mr. GOLDBERG. The program, Mr. Chairman, is in its formulative stage. The advisory councils will be meeting in mid-March with the VA regional offices to begin the program.

Mr. SHELBY. What, in your opinion, causes a loan which has just been approved to go bad within 4 months?

Mr. WYNN. I think in many cases the criteria that was used to underwrite the loan was sound. If you do an analysis of most foreclosures it is because of something such as unexpected medical bills. I do not feel that most loans that go bad in 4 months could have been predicted because of the facts at the time the loan was made. But something subsequent to the loan being made happens that causes the problem.

Mr. SHELBY. Mr. Wynn, you have had extensive experience as president of the Colonial Mortgage Co., about how much in dollar value are you servicing now?

Mr. WYNN. Around $1.5 billion.

Mr. SHELBY. $1.5 billion. So you are of good size.

Do you think some of the defaults you come into are the result of irresponsible or slipshod underwriting practices, or just things beyond the underwriting control?

Mr. WYNN. Of course, in any situation there is human judgment error. However, I think that most of the defaults that take place come about because of circumstances that develop after the loans are made.

Mr. SHELBY. People get divorces, people lose their jobs.

Mr. WYNN. That is correct.

Mr. SHELBY. Are you familiar with the Fannie Mae and the Freddie Mac policies requiring substitution, repurchase or indemnification of loans when foreclosure action on a mortgage results from a delinquency that begins within 4 months of the origination date?

Mr. WYNN. Yes, sir.

Mr. SHELBY. How does that work; just like I said?

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Mr. WYNN. Basically, it is a little more subjective. Not quite as hard fact as you said. They have the option to review those loans that fall into that category, and if they feel that it was an underwriting decision that caused the problem, then they can ask us to replace or repurchase the loans.

However, they do give you the opportunity to discuss why you made the loan and to review thoroughly the circumstances.

Mr. SHELBY. Do you believe the policies are basically justifiable and do you think the Government should be liable on such loans if there is a finding that the loan was not properly underwritten or documented?

Mr. WYNN. Two parts to the question. Number one, I think certainly as secondary market lenders which Fannie Mae and Freddie Mac are, they have the right to question our underwriting decisions, particularly on cases like that.

Now the Government is in an insuring role as opposed to a secondary marketing role. I feel to create a situation where the Government, on the guaranty or FHA insurance could come back and say that something was done in underwriting that would cause that guaranty to be canceled would be a serious disruption and a serious mistake of being able to deliver home loans to the public.

Mr. SHELBY. It really creates some chaos in the marketplace then?

Mr. WYNN. No question.

Mr. SHELBY. You state that the VA program is consistent with the mortgage markets generally and that this suggests that the operation has been basically well conducted. You further said that the MBA is concerned that a statutory mandate may be too inflexible a method of implementing change and that proper origination and guarantying of mortgage loans is a subtle and difficult activity.

Mr. WYNN. Yes, sir.

Mr. SHELBY. What do you mean by that? Do you mean you are just getting into real sophisticated criteria?

Mr. WYNN. We feel, Mr. Chairman, as Mr. Vogel and Mr. O'Toole have stated earlier, that they have the administrative ability to make many, if not all, of the changes that have been recommended. In their testimony and in practice they have begun to do those things that seem to bring the program more up to date.

The more flexibility they have to adjust quickly to changing economic conditions makes the program work better. If you have to go back and statutorily change something that has been interpreted, it takes longer and might not be accomplished at all.

Mr. SHELBY. Do you believe that instituting a debt-to-income ratio underwriting policy might not work?

Mr. WYNN. I believe it will work.

Mr. SHELBY. It will work.

Doesn't the criteria vary somewhat from banker-to-banker not only in some parts of the country but sometimes in the same city or town?

Mr. WYNN. There are rules of thumb or guidelines that we go by, but certainly circumstances surrounding a particular loan could be looked at in a judgment and that is the subtle part of it. The more experience the underwriter has, perhaps they would look at it one way; the less experienced another way.

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Mr. SHELBY. Mr. Wynn, about the cure rate or defaults reported to the VA, I understand it is approximately 82 percent. A 30-day earlier reporting procedure would be addressing only 18 percent of the loans. At what point in time do you contact the veteran borrower?

Mr. WYNN. The veteran borrower is contacted within the first month of delinquency from the standpoint of written communication. Presently 90 days, in addressing your question, is what is used. But communication with the borrower begins in many companies, certainly in ours, on about the 9th or 10th day after the first payment is due.

Mr. SHELBY. Are you basically satisfied with the VA response to your task force recommendation?

Mr. WYNN. Yes. We feel the VA has certainly been responsive. They are working with us to bring improvements to the program. There are still some things that we would like to see happen, but we feel confident that between our feelings and what they feel should be done to protect the veteran that we will reach that.

Mr. SHELBY. One last thing while the mortgage bankers, the realtors and the homebuilders here this morning. Regarding the legislation, H.R. 4130, which we passed last week and which we trust the President will sign, I hope he will sign, how long will this new loan credit authority suffice in view of increased market activity? Will we have to go back to the House and the Senate again to change the numbers as the interest rates have dropped again?

Mr. WYNN. In my opinion, if interest rates stay at the level they are now it will be exceeded during the year.

Mr. SHELBY. Mr. Smith?

Mr. SMITH. We are certainly concerned about it. I am not sure exactly what will happen. I would likt to discuss one point brought up earlier concerning the varying economic conditions across the country. We are talking about foreclosures. I don't know of a time in history when we have had such problems in the oil industry, in the agriculture industry and in the timber industry across this country, which is creating some of the problems with loans. It is not just VA; it is all over the country.

I can assure you that in some of those areas, it doesn't make any difference what the interest rate is; people are not going to be buying houses because they are concerned about a job, not a house.

Mr. SHELBY. There is no market there.

Mr. SMITH. There is no market.

I would like to make one other point, on something you asked earlier on fees, the additional $16 a month would amount to about $5,700 over the life of a loan. The additional Ginnie Mae fee of about $7 would add another $2,500 over the life of the loan. That totals about $8,000. In the numbers that we have come up with, about 500,000 vets would be priced out of the marketplace due to additional fees. I wanted to respond further to the question you had earlier.

Mr. SHELBY. Thank you.

The Chair recognizes the gentleman from New Jersey.

Mr. SMITH of New Jersey. Thank you, Mr. Chairman.

I want to welcome our guests and thank them for their expert testimony. I want to welcome Mr. Goldberg, particularly, who is

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from my own State. We know each other and I appreciate your comments.

I want to assure all of you that the chairman, and I am sure every member of this subcommittee and full committee, as expressed through past legislative efforts, do not support the loan irigination fee from 1 to 2 or to 3.8 percent or any of the other schemes that have been suggested.

I think the administration is wrong, and I do think that especially in light of, as I said earlier, Senator Murkowski's statement yesterday, he himself is against it, there is very little likelihood that such a user fee will be imposed in the near future.

I do have a number of questions I would like to pose. The VA just testified that they feel the loan guaranty is sufficient, and that it will guaranty a home of up to $110,000. I was wondering if you could tell this subcommittee if you have any data, or any kind of study that you perhaps have done as to how many veterans have not been able to purchase the home of their choice because that home was above that $110,000 limit.

Mr. GOLDBERG. Responding to the realtors, I don't have any data that is at my fingers at this moment, but I am sure that our Economics and Research Department could provide you with that.

Mr. SMITH of New Jersey. Could you do that for the record? That would be very helpful.

Mr. GOLDBERG. We would be happy to. I know, as I had mentioned to you in my testimony, that there is a problem geographically that is very severe in many areas. Even without looking at statistics, you can look at areas like California and the Northeast and see that it is almost impossible at those price levels to utilize the program.

Mr. GOLDBERG. We would be glad to supply some information to you.

(See p. 146.)

Mr. SMITH of New Jersey. As you might have heard earlier, I indicated that I was very concerned about the pilot program to test private sector management and disposition of foreclosed properties.

I have been having some discussions with some people as to what possible wording might be proposed to hopefully improve upon the Murkowski bill. In your opinion, do you believe that the 18-month duration and the 10 percent of foreclosed properties is a fair test, and do you have any specific recommendations as to what should be contained within that pilot program to make it a fair and accurate test of the VA versus the private sector?

Mr. GOLDBERG. I will respond for the realtors again.

I think we were very clear in our testimony that we don't even see the need for the test program because we have been working on this problem for some time in setting up our demonstration project.

We feel very strongly that over whatever period of time is used, whether it is 18 months, 1 or 2 years, that the demonstration program and the test sites that we have, and, incidentally, what we have made available, not only in the 7 test sites that we have, we have had an outpouring from realtor boards across the country to set up similar programs in other parts of the country.

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We feel that there is going to be a very rapid response to our demonstration program and it is going to be shown to be the best way to reduce this inventory of homes.

Mr. SMITH of New Jersey. How has the VA reacted to your tests?

Mr. GOLDBERG. The VA is in full cooperation and is cooperating with us and has already sent out the directive to the regional offices asking them to cooperate.

Mr. SMITH of New Jersey. But they haven't been convinced that any other test is therefore unnecessary based on those tests?

Mr. GOLDBERG. I can't say that they haven't been convinced. They obviously have been convinced that our program is a viable program, otherwise they would not have signed off on it.

Mr. SMITH of New Jersey. Would anybody else like to address the 18-month duration in particular?

Two additional questions, Mr. Chairman.

Mr. Wynn, why would the use of debt-to-income ratios and underwriting produce different results in many cases than the so-called residual system, and is a residual system more discretionary in nature?

Mr. WYNN. The answer to the second part of your question is certainly it can provide more discretion because you are trying to, in the residual method, address particular areas on a more specific way. Those costs can vary from time to time.

The reason that the ratios provide a standard that could be helpful and we feel should be used, it allows you to look at the housing costs and debt in some ratios which have been established by secondary lenders and by primary lenders over the years.

The residual method assumes that all of us are good managers of debt, and therefore will use the money that is left after we pay our house payments to do the things that the residual method says we should do with that money. Unfortunately, many of us are not good managers of debt in our own personal money, and if the money is not spent, as the residual method supposes it would be, then there can be some complications.

So the ratio simply allows you to establish some guidelines for debt prior to living expenses.

Mr. SMITH of New Jersey. One final question, Mr. Chairman.

On page 3, Mr. Wynn, you point out that a broader safety value should be allowed for the automatic foreclosure procedure. Could you elaborate on that?

Mr. WYNN. Yes. As the law is written, within 15 days of when the loan becomes 4 months delinquent, it must be placed into foreclosure. If it is not, then there is an interest stopgap there. The only safety valve, if you will, that can prevent the loan from automatically being placed into foreclosure or penalty to the lender taking place is an agreement for forebearance with the veteran which the VA must sign off on.

Because of the VA's staffing and cutbacks that have taken place, the ability to create the three-party agreement in that short period of time is almost impossible. Not that VA would not try to work with you, it is just that they don't have the manpower to respond that quickly.

Mr. SMITH of New Jersey. So you would suggest that one obvious conclusion would be an increase in foreclosures.

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Mr. WYNN. That would be a very obvious one. Another obvious solution, of course, would be to allow the lender to enter into a forebearance agreement without approval of VA in order for it to be effective.

Mr. SMITH of New Jersey. Thank you for that helpful answer.

Mr. SHELBY. The Chair recognizes the gentleman from Tennessee. I missed you earlier; I know you had to go to another hearing.

Mr. SUNDQUIST. Thank you, Mr. Chairman. I apologize; we had a markup in Public Works and so my colleague, Mr. Rowland and I, had to leave for a few minutes.

I wanted to ask VA a question for the record, and ask for that to be submitted, I would appreciate it.

Mr. SHELBY. Is Mr. Vogel still here?

Mr. O'Toole? Mr. O'Toole is still here. Do you want to do it just for the record.

Mr. SUNDQUIST. Just for the record is fine.

Mr. SHELBY. You go ahead then.

Mr. SUNDQUIST. I was curious whether with the decrease in interest rates, the property inventory has been reduced substantially? What is the trend, and if you could submit that for the record, that would be fine.

Mr. SHELBY. Mr. O'Toole, do you want to answer that now? You can take this microphone right over here.

Mr. SUNDQUIST. I apologize to the witnesses for that.

Mr. O'TOOLE. I don't have the figures right here. I think maybe we would be better off supplying that for the record, if that is all right.

Mr. SUNDQUIST. That will be fine, thank you. Thank you, Mr. Chairman.

Mr. Wynn, it is good to see you here today. Is it necessary for the loan guaranty maximum to keep pace with the average sales price?

Mr. WYNN. In order to provide the veteran with the same opportunity that other citizens have available to them we feel that if the veteran is entitled to that benefit that he should be entitled to all benefits.

Mr. SUNDQUIST. In other words, if it doesn't keep pace, the veteran is slipping and losing?

Mr. O'TOOLE. Exactly.

Mr. SUNDQUIST. I had suggested some things at a hearing in terms of how we reduce our inventory of property by giving the VA the option, which would not be mandatory, of reducing the sales price of a home based on how long it was held, so that if a home had been held in inventory for more than 1 year, there could be up to a 30 percent reduction in the price. In 6 months to 1 year, there could be a 25 percent reduction in the price. In 6 months, up to a 20 percent reduction.

That was not mandatory, and Mr. Wynn, I think the mortgage bankers understood at the time of that testimony that it would have been mandatory; not an option. Do you recall that discussion?

Mr. WYNN. No, sir; I don't recall.

Mr. SUNDQUIST. We were told that, it was in your testimony. We can give you a copy of that. You opposed it for that reason. To Mr. Goldberg or to Mr. Wynn.

Mr. WYNN. We will supply you a comment on the question.

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Mr. SUNDQUIST. The question I have is that when I met with our realtors from west Tennessee last year, we talked about how VA had priced some of these homes. The market price that they were asking for those that had been held for over 1 year was, in many cases, far in excess of what the market would bear.

It is my contention or was then and it still is that we make a mistake when we stick with a price forever. We have maintenance, we are tying up dollars. VA said, obviously, that if the sale of properties were more rapid, discounts would increase the flow of cash to the Loan Guaranty Revolving Fund and diminish the short-term need for appropriations.

They also say that in the long run it would increase the need for appropriations. I don't buy that because I think if the house is not going to sell quickly at that price, it is not going to sell 1 year from now at that price. We are in a non-inflationary period.

My question to Mr. Smith or to Mr. Goldberg, and maybe you all want to comment on this: Will it make sense to take a State and test this concept where we give the flexibility to the VA where they can reduce the price to first-time homebuyers or veterans or Vietnam-era veterans or something like that?

Mr. Smith, would you comment on it?

Mr. SMITH. I think you need to address local market conditions, as it is no different when you are out there with a brand hew house or an existing home. You just can't sit there and hope that someone is going to come along and buy this house at a very high price, because you can't afford to carry it.

Certainly I think we should let market conditions and the people in that market make the determination of what that house should sell for. They are professionals and they know. If values go down and you have a high priced house there should be some adjustment made because you want to move the property.

I would leave it up to the market discretion of the folks that are dealing with it on a professional basis day-in and day-out.

Mr. SUNDQUIST. Mr. Goldberg?

Mr. GOLDBERG. Yes, sir.

Certainly we agree with your feeling that the faster you can market the properties the better it is going to be and the prices to be realized are going to be better and not less.

I would like to point out to you that in the demonstration program that the realtors have agreed to with both VA and FHA, one of the provisions of agreement—and I will read it to you, it is very short—says "to provide additional market sales data to assist the property management staff to better reflect current market value in pricing properties."

One of the purposes of this program is for the realtors in that regional area, local area, to provide the pricing information and comparable sales data which will be a great aid to the VA in hitting the current price levels.

Mr. SUNDQUIST. That is exciting to me. That is what I think one of the advantages is. You are getting somebody from the private sector to give that input.

My question, though, is in a demonstration project do you need some formalized encouragement for major discounts when properties have been held for a long period of time?

Mr. WYNN. Again, I have left that up to the discretion of those people in that area. If they think that that is necessary to do it, to move the property, fine. If it is not necessary, certainly you don't want to sit there with one that is overpriced. I would leave it up to that discretion.

Mr. SUNDQUIST. Could we ask, Mr. Smith, perhaps after the task force has been operating for 3 to 6 months if you need some assistance in these areas with the concurrence of our chairman, that you would come back and tell us that you need some assistance and some formalized changes in this process.

Mr. WYNN. Sure. We would like to participate. I don't know why they didn't put a builder on that task force to start with because they are the guys that really know the cost and so forth. We would be glad to participate on it and to have a builder serve on it, too.

Mr. SUNDQUIST. Mr. Wynn?

Mr. WYNN. We are not members of the task force either; we don't have representatives on it. But certainly I would not have anything to add; both homebuilders and realtors stated that very well.

Mr. SUNDQUIST. Thank you, Mr. Chairman.

Mr. SHELBY. The gentleman from Florida, Mr. Bilirakis.

Mr. BILIRAKIS. Thank you, Mr. Chairman.

I first would say that I endorse the comments regarding the user fees that we heard originally from Mr. Smith, and would compliment his statements by reminding all of our veterans and members of the industry that the President's recommendations are only in his proposed budget and there hasn't been a President's budget that has been passed in quite some time up here. The House has always come up with its own form of the budget. With the strong opposition to that user fee increase, I also do not see that happening.

Mr. Smith, I agree with your statement in terms of better costing. I think you said better costing and better pricing is needed to help us with this problem. You used the illustration of the Washington, D.C., area and the fact that housing is so much higher here. That maximum cost if you will, basically takes the benefit away from the veteran.

Are you possibly suggesting that we should be looking at a maximum costing by region in the United States based on statistics and history in those areas?

Mr. SMITH. There ought to be some formula established in high-cost areas. In the other programs, you have a formula where, a builder in the program, takes into consideration the higher costs of land and so forth.

I know myself when I built in the VA program in this area for a number of years, I had to stay right at the absolute bottom end of the scale, otherwise, my product was priced out of the marketplace. That limits you very much as to where you can build because of location and the land cost. The key to it is land costs in these areas because you have some outrageous land prices. You get caught in a situation where you are trying to offset that with reduced housing quality and a lower-priced house which is virtually impossible in the high-cost areas of this country—and there are many of those. It

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is not just the Washington area; there are other areas. We would be glad to identify those and work with you on them.

Mr. BILIRAKIS. So there might be some merit to our being open-minded to that concept?

Mr. SMITH. There certainly would be and it would be fairer for the veterans in that area. It is almost a form of discrimination against those that live in the high-cost areas.

Mr. BILIRAKIS. Sir, you heard my comments earlier about the overappraisals, the over-valuation of homes by appraisers. It is a personal opinion, at least in my area. I don't how much it might apply to other parts of the country.

You are, of course, president of the Home Builders Association. Would you disagree with my statement?

Mr. SMITH. I think economic conditions have caused what has happened in this country, such as the situation with oil in the Southwest, timber in the Northwest, and also the farm economy. When you thwest, and also the farm economy. When you group these three major problems together and the economy goes down the way it has in those particular areas, the value of land goes down, and naturally somebody is going to get caught.

We are in a disinflationary economy, and therefore are caught in a situation that is not typical. It is the reason we are having problems with appraisal.

It is not fair to say that the appraisers and others didn't do their job properly. I have land that today it is not worth what it was 10 years ago. These things happen and they happen rather fast. Consequently, people get caught in them. It is unfortunate, but we have wrung inflation out of the economy, and with the other three major factors, prices have tended to come down.

We have builders who haven't built a new house in 4 years, and they are sitting with inventory. It is the very problem you are talking about. What are you going to do with that inventory? You are going to have to lower the price to get rid of it and to take your loss and go.

Mr. BILIRAKIS. What is our percentage of foreclosures involving veterans versus the other sectors of the economy.

Mr. SMITH. As I recall, I don't think there is much difference between that and the conventional programs.

Mr. BILIRAKIS. Would you agree with that, Mr. Wynn?

Mr. WYNN. No. I think that the foreclosure rate is higher because of the type of loan, because of the 100 percent loan versus the 95 and 90's now. We can provide you with some statistics if you would like, on that.

Mr. SMITH. If that is the case, then take a look at where those foreclosures are. Is it a situation where the whole economy fell in a particular area that is creating the problem? It wouldn't have made any difference if it were a 100 percent loan or a 90 percent loan if you get caught in that type of situation. You are still going to have a problem when the bottom falls out of the economy.

Mr. BILIRAKIS. If you have an overappraisal, then you have a higher mortgage which means a higher mortgage payment on the part of the veteran and of course if we increase the origination fees that is tacked on to the loan also. So you have an even higher mortgage payment.

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Mr. SMITH. No question.

Mr. WYNN. Congressman, I can address you specifically in regard to the foreclosures.

In Exhibit 3 to our written testimony, in 1985, under the VA category of loans serviced, there was 1.06 percent of foreclosures started. FHA loans, 1.16 percent. Conventional loans, .70 percent.

Mr. BILIRAKIS. Thank you.

Mr. GOLDBERG. Congressman, if I can respond to your question and point about appraisals. Appraisers tend to interpret historical data in the use of comparable sales. Usually it is within a 6 month to 1 year period of time. Also to look at the trend and just like economists, when they find out that the trend suddenly changes or the economic conditions change in the geographical area, then they find they get caught in that situation.

I think that when you look at the foreclosures for the VA and in other areas as well, you find that it is geographical to a great extent. So that it isn't a question only of just the appraisal process across the country.

Mr. BILIRAKIS. Mr. Goldberg, my time is up, and I don't agree with the theory of what you say, but in practice I am just not sure that that has really worked as far as in general VA loans are concerned. I am just not convinced of that.

Thank you, Mr. Chairman.

Mr. SHELBY. The gentleman from Connecticut.

Mr. ROWLAND of Connecticut. Thank you, Mr. Chairman. I have no questions at this time.

Mr. SHELBY. Gentlemen, we appreciate your appearance. Mr. Smith of the Homebuilders; Mr. Goldberg of the National Association of Realtors; and Mr. Wynn, representing the Mortgage Bankers of America.

We appreciate your being here and suffering with us through this. We are all wanting this program to work. I know you are in it every day. We are looking at it. We will be dealing with it, and will try to come up with some legislation to deal with some of the problems that have been outlined here today.

Thank you again on behalf of the committee.

Our next panel will be Mr. Hilliard Zola, executive director of the Homebuilders Ad Hoc Policy Group, accompanied by Mr. Arthur J. Corazzini. Mr. John T. Connor, Jr., vice president and general counsel, PHH Group, Inc. Mr. Weston E. Edwards, senior executive vice president of Lomas & Nettleton Co., speaking for Housing Roundtable, Inc.

Gentlemen please come to the table, your written testimony will be made part of the record without objection. Your oral testimony can be summed up if you desire. It will give us the opportunity to ask questions.

Mr. Edwards, please start off.

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STATEMENTS OF HILLIARD ZOLA, EXECUTIVE DIRECTOR, THE HOMEBUILDERS AD HOC POLICY GROUP, ACCOMPANIED BY ARTHUR J. CORAZZINI; JOHN T. CONNOR, JR., VICE PRESIDENT AND GENERAL COUNSEL, PHH GROUP, INC., ACCOMPANIED BY SAMUEL H. WRIGHT, VICE PRESIDENT FOR GOVERNMENT RELATIONS; AND WESTON E. EDWARDS, SENIOR EXECUTIVE VICE PRESIDENT OF LOMAS & NETTLETON CO., SPEAKING FOR HOUSING ROUNDTABLE, INC.

Mr. EDWARDS. Thank you, Mr. Chairman.

I am representing Lomas & Nettleton, that is the largest mortgage banker as it relates to our servicing, and chairman of the Housing Roundtable, which is a national housing policy advisory group.

Our group is composed of representatives from the realtors, the builders, the mortgage insurers, the lenders, and other housing groups. We come together to try to develop consensus solutions. So we hope you will find our interests represent a blending of these points of view.

We submitted a resolution urging the Veterans' Administration to utilize the property management and relocation industry to manage and dispose of VA-acquired properties, similar to the pilot program provision in Senator Murkowski's bill that we are discussing today. A copy of this resolution was sent to members of this committee and of the Senate committee.

What prompted us to make this resolution was OMB's user fee proposals of last year and again this year. We felt that the wrong end of the problem was being addressed. Far better to substantially cut the losses through improved management than to price the program out of the reach of worthy veterans through owners' user fees.

May I move quickly to these foreclosed issue problems that we all share; how best to deal with them. The problems encountered in disposing of foreclosed properties are very complex because foreclosed properties gain a reputation in the marketplace as tainted, and therefore obtaining the maximum sales price is most difficult.

This is made even more difficult by a general tendency for foreclosures to occur in economically depressed areas or in areas where the demand for housing is low. An improved solution to the VA's property management problem is to utilize the private sector to perform this disposal function. There are companies that manage and dispose of property on a nationwide basis for both the Government and other private companies.

These property management companies utilize a network of focused vendors and branch offices to maintain and market properties in their inventory. Another service they perform is that they have developed sophisticated computers and data base systems which clients can access in order to evaluate and manage their programs. These systems provide the capability to inquire as to the status of any property in inventory on an on-line basis; determine the costs incurred on the property in inventory, and project future cost experience.

These companies provide the service to their clients for a variety of purposes such as the resale of foreclosed property, the sale of

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newly-constructed homes, and the sale of homes for transferring employees. The strength of most of these companies is in their ability to develop marketing strategies on an individual house basis which will dispose of the home in the shortest period of time, and at the lowest cost.

Many of the properties that they presently handle are very similar in profile to the VA foreclosed property. Their cost experience suggests that substantial cost savings could be realized, as much as one-third to one-half.

Housing Roundtable is aware that the National Association of Realtors has developed a property disposition program with the VA in mind. Their program is designed so that the regional VA and FHA office staffs would work in conjunction with local realtor boards to insure the successful listing of properties. The property listings would be available to all licensed brokers.

We understand that the NAR is concern in the event the pilot program provision in this bill passes that should VA properties be managed by one or two national property management companies, then the property listings might not be open to the real estate community at large.

Housing Roundtable would share this concern and would strongly recommend that any legislation passed would ensure that the property management firms selected in the pilot program would list VA properties with the Multiple Listing Service so property listings would be available to all licensed brokers.

Nevertheless, Housing Roundtable believes that the advantages property management firms can offer in terms of experience in maintaining properties, preparing properties for resale, and negotiating property prices warrants that their services be employed.

It is not an extra layer of management, but it provides the critically-needed layer of management to solve these problems. Some of the other major provisions of the bill, although we had not mentioned them in our resolution, are very reasonable to us, namely, the strengthening of the credit underwriting guidelines that have been discussed as well as the improving and fortifying of the appraisal process.

That is a summary of my prepared remarks, and I appreciate the chance to present them.

[The prepared statement of Mr. Edwards appears on p. 193.]

Mr. SHELBY. Mr. Connor.

STATEMENT OF JOHN T. CONNOR, JR.

Mr. CONNOR. Thank you, Mr. Chairman.

I am vice president of PHH Group, and I am accompanied today by Samuel H. Wright, who is our vice president for government relations.

Our subsidiary, Home Equity, is the largest relocation company in the country, last year selling about $3 billion worth of homes for private corporate clients throughout the country. We are very gratified that the VA is going to undertake and supports the enactment of legislation calling for a pilot program.

The sell process that we are engaged in here is not terribly different from what we have experience in the private sector as this

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industry has grown over the last 20 years. A very large computer company based in Westchester would have a practice of relocating its own employees over a period of years, and we would have to convince them that because of the computer systems we employ and the network we have of appraisers, independent realtors, lawyers and so forth across the country, that we can shave a margin off of the cost of each one of these relocations.

In each case we are only talking about a few thousand dollars, but when you are talking about billions of dollars of homes, as they say in Washington after awhile, it adds up. We do anticipate in the case of this inventory of homes that there are substantial savings that can be realized, in this case for the Government.

Generally speaking, I think we are all aware of the fact that this has become a greater problem in our society. Several Government agencies have large inventories of homes and with deregulation in the financial industries, the savings and loan industry in particular, this is a problem that is going to be with us for some time to come.

It is very important in local communities that these homes not overhang the local markets for extended periods of time. It is important to the neighborhoods that the homes be owner-occupied and maintained, and that the cycle between vacancy and reoccupation be as short a period of time as possible. I think when you combine the social benefits with the fact that the veterans program that we all support would be financially enhanced by the rapid turn at less cost of these foreclosed homes, that we can see substantial savings and benefits to the Government of this program.

Thank you very much.

[The prepared statement of Mr. Connor appears on p. 209.]

STATEMENT OF HILLIARD ZOLA

Mr. ZOLA. Thank you, Mr. Chairman.

The Homebuilders Ad Hoc Policy Group is an organization comprised of nine of the nation's largest homebuilders. It includes U.S. Home Corp., Ryan, Ryland, Centex, Kaufman & Broad, Development Corp. of America, Pulte, Ellison, and General Homes Corp. Depending on the housing market, they will build between 50,000 and 60,000 houses a year. Approximately one-half of that volume is FHA-VA.

All of the companies have their own mortgage banking facilities. In addition to their efforts, Lomas & Nettleton and PHH provided funding to us for our study and sat in on some of the meetings and received research data. A full copy of our report is submitted to you.

The conclusions of the Ad Hoc Group are as follows: We reviewed many of the arguments put forth in criticism and in defense of the VA Guaranty Loan program. We find ourselves in agreement with the executive branch and those in Congress who insist that large deficits in the Revolving Fund should be avoided.

Furthermore, we are persuaded that the increase in the VA's foreclosure rate and the rise in the size of the VA inventory of foreclosed properties is a serious problem. The costs associated with acquisition and resale of foreclosed properties are considerable.

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The efficiency with which the operation is undertaken by the VA has probably deteriorated as the size of the inventory has doubled from its historic levels without any increase in the VA's staff.

We cannot agree with the critics of the program who attempt to lower the foreclosure rate either by raising the down payment requirements or abandoning residual underwriting in favor of rigid underwriting guidelines. The net effect of that would be to raise income requirements.

The task force is convinced that most of the variation in foreclosure rates for both the VA and the conventional mortgage markets can be explained by changes in payments-to-income and loan-to-value ratios as loans mature.

Put another way, the rate at which these ratios change for particular loans during the first 3 years of the loan's lifetime is the critical determinant of whether the loan is likely to go into a default. We acknowledge that highly-leveraged loans with relatively high payment-to-income requirements are more risky than others. Nevertheless, the VA program has been characterized by low and zero down payment for a very long time, and it is only recently that the foreclosure rates have risen dramatically.

The causes are found in the economic events of the early 1980's. Loans made in the 1980 through 1982 period were subject to a set of unfavorable economic events. Our task force believes that the more favorable economic climate of recent years will result in a downtrend of the VA foreclosure rates beginning in 1986 and continuing through 1987 and 1988, which will ease the burden on the VA's staff and will relieve the cost pressures on the fund.

Also the task force urges that efforts be taken to improve the underwriting and loan servicing process. In particular, the following items:

Loan applications rejected by automatic underwriters should be identified to the VA. Consideration should be given to changing the program and delegating all underwriting to the mortgage banking industry, but preserving the residual underwriting guidelines.

Assuming that delegating all of the authority to the private sector is not acceptable, and the prior approval process remains in place, the VA should develop a management information system capable of detecting and correcting deficiencies in its underwriting program.

Default rates for prior approval loans should not vary significantly from the rates on automatic underwriter loans. The VA should use all means at its disposal to assure that VA loans which are being serviced for a fee by mortgage bankers should be serviced as well as conventional loans.

Consideration should be given to adoption of the 60-day notification process for delinquent loans. In addition, the task force believes that foreclosure inventory management and the property resale process can be improved with an accompanying reduction in the losses incurred in the foreclosure sales.

We recommend the following: That VA develop an internal management information system that permits it to render full cost accounting of its property management operation. Only then will it be able to structure its program efficiently and comply with the

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spirit of the Deficit Reduction Act of 1984 rules governing acquisition of property.

At present, incomplete Government accounting makes it impossible for the task force to accept the Government's contention that by accepting for resale 88 percent of all foreclosed properties, it minimizes its losses.

We suggest the VA give serious consideration to entering into contractual arrangements with private firms for the management and sale of all foreclosed property. Furthermore, the task force endorses the VA intent to undertake a 2-year demonstration whereby 10 percent of its inventory will be managed and sold by private contractors.

It is the task force's position that adoption of these recommendations, together with the expected downturn in foreclosure rates brought about by lower interest rates and growth of national income, will bring the loan guaranty fund into near balance without further increases in origination fees. The task force considers the OMB proposal to increase origination fees for revenue purposes short-sighted. It would jeopardize the primary goal of the VA guaranty program by denying home ownership to those veterans most in need of the advantages of the low down payment provisions the program presently provides.

Moreover, the task force finds administration proposals which would allow the origination fees to be financed particularly ill-informed. Allowing the financing of these fees would exacerbate the problems associated with the administration of the residual underwriting process and could increase the probability of default by inappropriately raising loan-to-value and payment-to-income ratios.

We acknowledge that the OMB proposal has the advantage of being able to raise revenue for the funds simply and directly. However, to be evenhanded, OMB should also acknowledge that the loan guaranty fund was never designed to break even. More importantly, that substantial increases in loan origination fees will ration out a large number of veterans.

Instead, the OMB proposal ignores the rationing effect and attempts to justify the fees by reference to the value of the Federal guaranty. OMB sees no conflict between the fact that the program was intended to encourage home ownership by veterans by guarantying low or zero down payment loans and its own proposal, which would substantially increase the size of the required down payment because the loan is guaranteed.

In the task force's view, the administration proposal is simply a way to curtail access to home ownership for those veterans most in need of the help that the Federal program provides.

Thank you.

[The prepared statement of Mr. Zola appears on p. 214.]

Mr. SHELBY. First, I want to thank you, Mr. Zola, for the comprehensive report that you furnished the committee. That will be very beneficial to us.

Mr. Connors, your relocation service is the largest in the country. Do you actually manage a lot of these properties as you take them over and sell them? How does that work?

Mr. CONNOR. This is a service industry. It is not a real estate speculation-type of enterprise. Fortunately, in this country we have

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large numbers of competent local service personnel. Realtors, appraisers, lawyers, people who paint houses and do the landscaping, and through a process of elimination over the years, we develop those people who can really do it for the company.

Mr. SHELBY. People you can rely on, right?

Mr. CONNOR. That is right, sir. That is basically how we work, is to network these vendors who are local, usually substantial vendors in their local areas, and they are the ones who actually perform. We have very strong performance standards and we have the nationwide computer data bank which is almost the prerequisite for this kind of a program.

In the case of another Government agency which also has a large inventory of homes, they are the first to say, and they are very much looking at these sort of management services right now as well, that they don't even know some of the basic data that they have to know in order to manage their problem for themselves.

The motto of our corporation which is all corporate services and other areas as well is, "We help companies mind their own businesses." That large computer company knows how to make computers and market computers. They don't necessarily do the best job at relocating their employees in selling that house in Westchester and so forth.

That is the type of service that is performed for a very modest fee.

Mr. SHELBY. What is the name of your company? Equity—

Mr. CONNOR. Home Equity. The relocation company.

Mr. SHELBY. Mr. Edwards, I guess I will ask all of you, have any of you submitted proposals to the VA officials regarding a proposed property management test?

Mr. EDWARDS. We are mindful that quite a few have been submitted as we met with Mr. O'Toole earlier. Has there been one submitted?

Mr. SHELBY. Mr. Connor, do you want to comment?

Mr. CONNOR. The VA has just put out this request for information. They hope to have people respond by the middle of March. Based on that, they will structure, I hope, a formal RFP. At that time there will be formal proposals submitted.

Mr. SHELBY. Mr. Edwards, when I was in Dallas in January, I had the pleasure to meet with your chairman, and I know that you are the largest mortgage banker in the country.

What are you servicing at the moment?

Mr. EDWARDS. A little over $20 billion on our total portfolio and a little over $7 billion of VA mortgages.

Mr. SHELBY. I know you will experience particular problems in Texas because of the oil and gas decline. There is just no way around it, is there?

Mr. EDWARDS. We are suffering, yes. That is true. It is as you say. But if we can manage it, I followed you into Houston just as you mentioned earlier, and I do believe that there is some dumping going on and some rather unfortunate things because individuals living in homes paying their payments see homes down the street selling for less than their mortgage balance, and then end up defaulting.

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We tend, in these situations, without wise management, to compound our foreclosure problems. Those are the things that I think we are talking about. This initiative could help us a great deal with that.

Mr. SHELBY. Don't you think refinancing at lower interest rates, alleviates some of the possible future foreclosure problems?

Mr. EDWARDS. Absolutely.

Mr. SHELBY. It lowers monthly mortgage. One of you, I believe, it may have been either Mr. Edwards or Mr. Zola, commented earlier on the economic conditions of the country in 1981 and 1982 as it pertained to high interest rates. Now, if my bill can keep this program going; to keep the VA Loan Guaranty Program going, these additional refinanced loans will contribute to a decrease in foreclosures and subsequently there will be a smaller drain on the revolving fund in the future. That is my view, anyway.

Mr. EDWARDS. We agree with that very much.

Mr. ZOLA. Mr. Chairman, there are two items that you mentioned that I would like to comment on.

Mr. SHELBY. You go right ahead.

Mr. ZOLA. I agree with you regarding the refinancing. It seems to me that the VA and the FHA programs both should recognize the fact that we are replacing older, higher-rate loans with newer, lower-interest loans which enhance the quality of the portfolio, reduce the risk to the Government and, in fact, probably ought not to be counted in any cap because you are not extending new credit to anybody under Federal credit budget guidelines.

You are replacing more risky loans with less risky loans. For that reason, I would suggest that you consider removing refinancing activity from the caps that OMB has applied.

Mr. SHELBY. The Chair recognizes the gentleman from New Jersey.

Mr. SMITH of New Jersey. Thank you, Mr. Chairman, and gentlemen, thank you for your testimony.

Mr. Connor, I would like to ask you a question. I asked Mr. Vogel if the pilot program would include interest costs, and he said, in answer to that question, yes.

Can you comment on this whole issue and the need to include all relevant costs to construct a fair test?

Mr. CONNOR. Yes. It is very difficult and we have not yet enjoyed access to the data that we would need to make intelligent comments and proposals from the VA. It is very difficult to assess their program in private-sector terms because they do things that are meaningful to them for the reasons that they are in business to benefit the veteran, but to a private-sector type of operation that is not the way we would do it.

An example is the fact that they did not compute interest on the asset they own basically, and there is an imputed interest cost for all of us when we own assets.

I was gratified to hear that the VA would allow these kinds of costs to be taken account of in any such pilot program because it is very important that they be done in order to have a true, meaningful result, so you all and the VA can look at the bottom line, as it were.

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Mr. SMITH of New Jersey. A few moments ago, Mr. Goldberg, from the realtors, indicated that the realtors have embarked on a very ambitious, cooperative program with the VA.

Is there any likelihood, or do you see any problems, any of you three gentlemen, with the fact that they may have already begun to trailblaze this whole issue, is there a posibility that a test could actually put back 2 to perhaps 3 years full augmentation of the private sector getting into the selling of foreclosed properties?

Do you see that as a possibility and do you think maybe some statutory flexibility would be in order if we were to pass a bill to say that the VA could act even if the test results have not been concluded, if they feel, in their judgment, based perhaps on the realtors' demonstration, that the private sector can do it?

Mr. CONNOR. I personally think that flexibility is important, and in your oversight function if the VA feels that there are conclusions to be drawn that they be allowed to do so.

There is a necessity to have a couple of cycles. The real estate market is very seasonal, and the kinds of pilot programs we have been talking about, where there would be one for their account and one for the account of the private sector test vendor, is the kind of thing where you would have comparability.

If the realtors are nervous about this because some of the relocation companies have their own captive realtors, our own happens to work with independent realtors, but there are reasons why the NARE is nervous about the idea of a nationwide program, then they could run another program simultaneously and all the results could be compared by the VA and by this subcommittee, and hopefully the conclusion would be obvious at that point.

That would be a reasonable thing to do, but it would probably take at least 2-calendar years.

Mr. EDWARDS. I think your thought of trying to move as quickly as possibility to take advantage of the proof of these tests is excellent.

I would just like to add this dimension, though. I believe that the realtors efforts—and we have realtors serving with us on our roundtable—is essentially one to improve the exposure of these foreclosed inventories to give it as broad an offering among the real estate community.

I think that can be combined and would be automatically combined with most of the firms, and by contract could be combined with the private initiatives which are serving much more of a 406 corporation-type of function. In other words, there is the management of the foreclosure and then there is the exposure of the properties through the broadest real estate market opportunity that you can.

So I think in some ways these could be combined and not considered alternatives.

Mr. ZOLA. I have three points, Mr. Smith.

First, beyond the sales function that the brokers provide, obviously the VA or the servicer is in there early in the counseling as a function, and you can't do anything to destroy that. In fact, the counseling process has to be encouraged as does the management of the property while you are getting it ready to be sold, and final-

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ly, the mortgage banking function, which is also important to the whole package.

Secondly, the test has to measure the efficacy of everybody's ability to provide different pieces of the whole package, and it has to be done on a national and regional basis. I am sure there are small firms in your home town that are the best in the area, that nobody could beat them. Maybe these small firms need to be considered in the process.

Finally, with FHA, VA, Fannie, and Freddie, all holding property and all under the pressures of OMB to produce cash, you have somewhat of an auction mentality and you have an uncoordinated national housing disposition policy. In fact there is none. Certainly the Houston market has shown you that you ought not to be going in and dumping property. In one 3-month period, but extended over only 61 days, FHA, VA and Fannie Mae sold at auction.

You had 600 hundred units going in that market at bargain-basement, fire-sale prices which disturbed the value of the inventory that you own. It disturbed the value of the inventory that all the mortgage bankers own, and it affected all the houses that were built and not yet sold. So you have to do something to coordinate that kind of activity.

Mr. SMITH of New Jersey. A few additional questions, Mr. Chairman. I see my time is up, but I appreciate it.

Mr. SHELBY. All right.

Mr. SMITH of New Jersey. Would all of you perhaps comment on how you see the test occurring, in terms of the parameters? Do you think it should be regional or national? What kind of criteria would be necessary for the contractors? How would the performance be measured? But especially whether it should be regional or national?

In speaking to some realtors back home in my district in a conversations last week, it was indicated to me that we could get a skewed test if it is not properly laid out. As was indicated in some earlier testimony, some markets are behaving completely different than other markets.

Maybe from right to left on the panel or left to right, if you could comment on that.

Mr. CONNOR. The approach that had occurred to us was that since we are talking about 10 percent of the inventory, our calculations are that over a 2-year period that would be about 5,000 houses, that certain regions are picked, and that one of the regions would be one of the most difficult regions, another region would be a region where they are experiencing little problem, and then in-between.

In each one of these regions, there would be just a rule that as they come in through the VA system that, first one be handled as it normally is in the VA and the next one go out in the test with the private contractor, so that it is a completely fair system that would be set up; that the private contractor be allowed to do the management function more or less as they would for a private corporation, and that the management of the costs be totaled so that we can calculate and quantify.

There obviously would have to be a decision as to whose computer system would be utilized because that is a very basic difference.

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Our computer system, for example, is totally different than the system employed in the VA.

Mr. EDWARDS. I would include, as well, that you want to give some representation. I don't think you would want to do a full national test because it would spread you out so thinly that it wouldn't really test the strength of this activity in large quantities in individual offices.

But you should definitely sample the best, the middle, and the worst markets because they are a different challenge to a manager and certainly are going to provide you with different results. Perhaps 10 offices, or something of that nature, should be chosen for their representativeness and yet give them enough of a quantity to really test their mettle in a difficult market.

Mr. ZOLA. Congressman, I think it is fair to say that no member of the ad hoc group will bid to participate in this. They are very happy selling and financing their own houses and servicing their own portfolio of business that they built.

So I don't think that there is any interest on their part to get involved. I would say that it is impossible to replace the VA. There is no company that has the resources able to be nationwide.

So whatever you do is going to be something less than nationwide. I am sure the biggest mortgage banker doesn't have a big facility in Butte, Montana, or other places where there is not a lot of activity, but the VA will have an office. So the ability of the private sector is less than national in some sense.

Mr. SMITH of New Jersey. Thank you very much.

Mr. SHELBY. The Chair recognizes the gentleman from Connecticut, Mr. Rowland.

Mr. ROWLAND of Connecticut. Thank you, Mr. Chairman.

Mr. Zola, the ad hoc policy group made a number of recommendations in your testimony and I would just like to touch on one or two of them for additional comment.

In the recommendations, you said that the VA should develop a management information system capable of detecting and correcting deficiencies in its underwriting program. You also made reference to the VA developing an internal management information system which permits it to render a full cost accounting of its property management operation.

Would you care to make some additional comments on that?

Mr. ZOLA. What Mr. Connor was speaking about earlier is very hard to measure, what the private sector companies do versus a Government agency, when the basis of accounting is different.

VA imputes no value to the holding of a multi-billion dollar inventory over a period of years. Selling it now or selling it next month or selling it next year didn't cost them anything. Similarly, the asset is not reflected as an asset anywhere. We would all treat that differently.

So Government accounting is different from real-world accounting in that sense.

Mr. ROWLAND of Connecticut. We know.

Mr. ZOLA. Thank you.

Mr. ROWLAND of Connecticut. With regard to the management information system, to detect inefficiencies is there some system

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that needs to be put into place to avoid a high volume of deficiency?

Mr. ZOLA. I think there is probably a good computer capability need that the agency has for knowing who is applying for mortgage credit, where they are located, what happens to them when they get turned down, where do they go, what happens to the house.

There is a whole series of questions that our economic people asked the VA that we got some answers on, but they weren't consistent. They weren't satisfactory.

Mr. ROWLAND of Connecticut. In your opinion, do you think that they have the control mechanisms but they just haven't been implemented?

Mr. ZOLA. I don't feel qualified to answer that question, to be honest.

Mr. SHELBY. I appreciate your bringing up some of these recommendations. I think they are things we need to follow through on rather than just throwing the whole system out, or contracting it out and then walking away from it. We still need to concentrate on some of the problems we have seen in the past.

We thank you very much. Mr. Zola, Mr. Connor and Mr. Edwards. We do appreciate your appearance before the subcommittee today. You have done a good job, and if you have anything else you want to submit to us, we will leave the record open. We are trying to solve some problems. Again we appreciate your suggestions. Thank you, gentlemen.

Our next panel will be Mr. Richard Johnson, Jr., director of legislative affairs, Non Commissioned Officers Association of the USA; Mr. Paul Egan, deputy director, National Legislative Committee of the American Legion, accompanied by Mr. Dennis K. Rhoades, director, National Economic Commission; and Mr. Richard Schultz, associate national legislative director, Disabled American Veterans.

The Paralyzed Veterans of America have notified us that they will submit their testimony and suggestions for the record and the record will be kept open for that, without objection.

[The prepared testimony of PVA appears on p. 219.]

Gentlemen, your written testimony will be included as part of the record in its entirety, without objection, and you may briefly sum up your comments here. Mr. Johnson, do you want to go first?

STATEMENTS OF RICHARD W. JOHNSON, JR., DIRECTOR OF LEGISLATIVE AFFAIRS, NON COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA; PAUL S. EGAN, DEPUTY DIRECTOR, NATIONAL LEGISLATIVE COMMISSION, THE AMERICAN LEGION, ACCOMPANIED BY; DENNIS K. RHOADES, DIRECTOR, NATIONAL ECONOMIC COMMISSION; AND RICHARD SCHULTZ, ASSOCIATE NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS

STATEMENT OF RICHARD W. JOHNSON, JR.

Mr. JOHNSON. Thank you, Mr. Chairman.

Let me begin this morning by extending, on behalf of the association and myself, a special thanks to you for your efforts on H.R. 4130, and also to the rest of the committee and committee staff

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who have worked very hard to make that necessary legislation law. Hopefully, the President now will sign it.

Mr. Chairman, I will limit my comments this morning on S. 1887 to primarily 2 areas of the proposal. The centerpiece is a proposed change in underwriting criteria, a conversion from the present system to a debt-to-income ratio measure.

Mr. Chairman, in our opinion, authority to change or to convert the VA's measure exists in current law. It doesn't seem to us a sound change to rely entirely on debt-to-income ratio rules because they eliminate many of the flexibilities that the Veterans' Administration currently has to measure a veteran's ability to repay the loan for which he has applied.

This change in law would require new CFR rules, which would be difficult to maintain as current, particularly based on the geographic differences we have in the lending industry. The bottom line is that this proposal has an experimental purpose in that it seeks to reduce foreclosures fundamentally by reducing the number of participants in the loan guaranty program.

However, no clear link has been established to suggest a connection between the current standards in VA underwriting practices and the number of foreclosures. Such information, in our opinion, should be developed before such sweeping changes are made in loan guaranty criteria.

With regard to the foreclosure provisions in the legislation, NCOA offers its general support. We have recommended in our prepared statement, however, that the Administrator be given some discretionary authority to waive the specific requirements to meet 2-month and 4-month deadlines as proposed by the bill.

Our prepared statement also recommends a concurrent notification to a veteran who is liable under a loan guaranty if the property going into default is on an assumed loan. As an alternative, we have discussed with staff the concept of requiring VA approval on those assumptions and we certainly accept the staff recommendation that it would be better to have the VA review those assumptions and release a veteran from liability at the time those assumptions are made.

This staff proposal would also alleviate many of the other problems that exist in equity-skimming scams and some other problems that have existed in the loan guaranty program.

With regard to appraisals, the association certainly appreciates the goal of the legislation but believes that the legislation itself may be unmanageable, once again based on the need to create new CFR regulations to implement it and to decide a different basis for qualification for appraisers nationwide.

We would recommend that before such legislation is implemented that it at least be tested in a geographic region somewhere to see if it is really feasible to make these types of changes.

In conclusion, with the other exceptions noted in our prepared statement, NCOA generally supports the other areas of the bill regarding an increase in the loan guaranty, improvements in specially-adapted housing benefits, direct transfer of funds between the direct loan revolving fund and the loan guaranty revolving fund, and the experimental management liquidation provisions on VA property.

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That concludes my summary, Mr. Chairman.

[The prepared statement of Mr. Johnson appears at p. 223.]

Mr. SHELBY. Mr. Schultz?

STATEMENT OF RICHARD SCHULTZ

Mr. SCHULTZ. Thank you, Mr. Chairman.

On behalf of the more than 1 million members of the Disabled American Veterans and our Ladies Auxiliary, I wish to thank you for the invitation to appear here today and commend you and the members of this subcommittee for your outstanding leadership in the VA Home Loan Guaranty Program.

We especially wish to thank you for your efforts on H.R. 4130 setting realistic ceiling levels for the VA Home Loan Guaranty Program.

Mr. Chairman, while we have no official position on the loan guaranty provisions of S. 1887, we clearly recognize that it is their intent to improve the VA Home Loan Guaranty Program and to protect veterans and the Veterans' Administration from financial loss.

We are pleased that some of our concerns expressed last year before this subcommittee are addressed in S. 1887.

Mr. Chairman, in our written statement we have outlined our concerns and offered some recommendations which we feel will help preserve the integrity of the VA's Home Loan Guaranty Program while at the same time assuring that veterans will continue to have the benefit of a meaningful home loan guaranty program.

We also realize that any attempt to reach that delicate balance in this program must not tread on the primary purpose of the VA Home Loan Guaranty Program, which is to provide meaningful assistance to veterans in their efforts to find afforable housing at reasonable credit terms.

At this time, I will conclude my oral remarks and I will be happy to answer any questions you may have.

[The prepared statement of Mr. Schultz appears at p. 231.]

Mr. SHELBY. Mr. Egan?

STATEMENT OF PAUL S. EGAN

Mr. EGAN. Thank you, Mr. Chairman.

Dennis Rhoades and I will split the time available to us to make our presentation.

First of all, Mr. Chairman, at the top of this hearing you asked the VA a question which we think was rather pertinent. You asked whether or not the VA already has authority to do many of the things that are contained in S. 1887 and the VA responded that they did.

For some people, that response might argue that this legislation or something similar to, it is not necesseary, but on the other hand, the fact that these actions haven't been taken sooner, much sooner, is a pretty potent argument in favor of doing something along the lines of S. 1887.

In Real Estate Finance Today, in the January 24, 1986, issue the VA Home Loan Guaranty Service writes that they are undertaking several changes. three of which include tightening up appraisal

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standards, tightening up underwriting standards, and engaging in some sort of computer system that will match individual lenders with high foreclosure rates to find out if there are some lender abuses of the program.

Mr. Chairman, in our testimony before this subcommittee in March of 1984, we made the same three recommendations, and we wonder how many millions, perhaps tens of millions of dollars, might have been saved in the Loan Guaranty Revolving Fund if those initiatives had been undertaken, which apparently the VA had the authority to undertake, much, much sooner.

In addition, in that article the VA undertook to consult with FHA, mortgage bankers, the realtors, Fannie Mae and others to determine a consensus on what actions ought to be taken. Nowhere in this article is there any indication of any interest in hearing what the veterans' organizations had to say about this.

We find that to be totally unacceptable, and we would remind this committee that this program is, first and foremost, a veterans' program, it is not a bankers' program, it is not a realtors' program, it is not a program for investors in mortgage-backed securities.

Just a couple of words about the most recent crisis in the Home Loan Program, that crisis requiring remedial legislation in which you have demonstrated a great deal of leadership in seeing that it was passed.

We are not sure who is responsible for the gross under-estimate in the authority of the VA to guaranty mortgages, whether it was an administrative mistake by the VA or whether it was one more example of the OMB's commitment to bring this program to its knees, but the very fact that it took an act of Congress to correct this problem leaves us with no other conclusion than that neither OMB nor the VA can any longer be trusted to operate this program prudently and thoughtfully with veterans in mind first.

Therefore, we support some sort of legislative initiative.

Mr. SHELBY. Mr. Rhoades?

STATEMENT OF DENNIS K. RHOADES

Mr. RHOADES. Thank you, Mr. Chairman.

It is very clear that the program, having suffered through a lot of the economic problems in the earlier part of this decade, needs to set in place some system which allows it to more quickly respond to conditions such as high interest rates, acceleration of inflation, and so forth, so that veterans don't get caught in the trap that many face now.

That is why we favor the committee taking a very close look at setting in place that kind of a system which can be immediately responsive to changing times.

We say this with some caution, however. Our problem basically with S. 1887 is the regulatory process and the fact that it may come under the scrutiny of OMB if not, in fact, be written by OMB. I think the committee recognizes that there are elements within OMB that simply want to move the Federal Government out of the credit market. Witness the proposed sale of FHA; witness the proposed elimination of the Small Business Administration.

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So I think anything we do in working with the system, we also have to bear in mind that if we give too much regulatory authority to the VA and to OMB, we are likely to find a lot of veterans cut out of the process as a means of developing a progressive way of eliminating the VA Home Loan Guaranty Program entirely.

That having been said, we are also concerned with S. 1887 because it doesn't address the whole issue of forebearance at all. I think Mr. Wynn's comment from the Mortgage Bankers, was very interesting when he observed that it is nearly impossible to develop a three-part forebearance agreement. The VA doesn't have the resources, the VA doesn't have the time.

Yet if this is a veterans' program, this is precisely one of the areas that the VA ought to be giving priority to in terms of preloan counseling, pre-foreclosure counseling, recasting of loans, sending an unemployed veteran over to the other side of the house to get a job if job loss is the problem.

We believe that forebearance ought to really be looked at and included as a part of any legislation to remedy the program.

We agree with the raise in the guaranty. It is good. It responds to the elevated cost in housing, and by the way, we do agree with some of the bankers who appeared here today that the committee ought to take a look at the whole concept of indexing the guaranty to take into account high-cost areas.

One final comment, Mr. Chairman, and that concerns the liability of the veteran once a non-veteran assumes a loan, and should the veteran not negotiate a release of liability by the new homeowner.

We think this is an increasing problem and we would like to see the committee take some steps to require a release of liability by anybody who assumes a VA loan.

That concludes our statement, Mr. Chairman.

[The prepared statement of Messrs. Egan and Rhoades appears on p. 238.]

Mr. SHELBY. We appreciate your testimony. Your idea about counseling makes a lot of sense. We have to find money, as you well know.

The other thing that I liked and picked up on, we as Members of Congress are going to have to set the legislative agenda. We should and have left some discretion to the VA. I think we have to, to a certain extent, but we should not abdicate, as you alluded, our responsibility because OMB is involved more and more in the programs. You can witness what has happened within this subcommittee in the last year or 2.

The Chair wants to recognize the gentleman from New Jersey.

Mr. SMITH of New Jersey. Thank you, Mr. Chairman.

I want to thank the veterans' organizations again for their timely input, unfortunately last, and you have had to sit through a very lengthy hearing. But I do have just a couple of questions and I will try to keep them very brief.

Last December 4th, every member of the committee received a letter from the Association of Homebuilders pointing out their opposition to the debt-to-income ratios, pointing out that by establishing a debt-to-income ratio a number of creditworthy borrowers may be denied their VA home loan guaranty entitlement.

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Mr. Egan, I was just looking over your testimony. I note that you have at least two objections, one dealing with down payments and the other dealing with the regulation process and how that could negatively impact upon the veteran.

What is the view of the various organizations on this debt-to-income ratio issue?

Mr. JOHNSON. We are opposed to it, Mr. Smith. The Non Commissioned Officers Association believes that this, at best, has an experimental purpose, that experimental purpose being to see if we can reduce foreclosures by tightening up qualifications criteria at the front end of the program.

However, nobody has established, at least to the satisfaction of my association, that there is indeed a connection. My association continues to believe that it is unpredictable causes, divorce, medical problems, unemployment, that contribute more often to loan foreclosures, and until there is substantial evidence to suggest that the current VA underwriting practices are at fault, we oppose change.

Mr. SMITH of New Jersey. Do you believe that the residual system of accounting doesn't pose a problem?

Mr. JOHNSON. At this point there has been no evidence to suggest that the residual system does pose a problem. The proposal, as we see it, is simply an experimental one to determine if there is a problem, and there are other ways to demonstrate that.

Mr. SMITH of New Jersey. What is your view on the pilot program, Mr. Johnson? Do you feel that the realtors' efforts, may be sufficient to roll out and go into a private-sector management and disposal of foreclosed properties, or do you feel that the test program should continue, or at least we should get that off the ground? I know it isn't off the ground yet.

Mr. JOHNSON. Now we are changing subjects.

Mr. SMITH of New Jersey. Yes, we are.

Mr. JOHNSON. We are going from debt criteria.

The Veterans' Administration has the authority to do that. I think the Veterans' Administration, working within that authority, could probably make better use of private industry.

Commissions tend to take on a character all their own. The Veterans' Administration would probably benefit as much from the advice of one or two paid consultants on staff, who are there without conflict of interest, to recommend some changes which have not been internally considered.

We have no great opposition to the program or to the proposal. Certainly the Veterans' Administration could benefit from some additional input. Whether we need to go to the expense of creating a commission, of dedicating 10 percent of the properties held to the program, or mirroring up to this in legislation, is a decision Congress will have to make. But, again, it is one that in the long run could probably be done just a little differently, a little more conservatively, and at a lot less cost.

Mr. SMITH of New Jersey. Would anyone else like to comment?

Mr. EGAN. In response to your first question, our overriding concern is that veterans who can't afford the mortgages they are being given, not be given those mortgages.

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I suppose we can argue over whether or not a residual method or a debt-to-income ratio method is the best. A pure debt-to-income ratio probably would become more and more meaningless as one's income increased whereas on the other hand, a residual system would have the opposite effect. Probably some sort of combination of the two would be best.

But the overriding concern is whatever formula is used, something has to be done to bring down the very high level of foreclosures that have taken place in the last several years. We can argue over the causes as being from the recession and high unemployment. We can argue that maybe it was the extraordinarily high interest rates. We can argue that maybe it is short-term economic reversals, as was indicated earlier, by divorce, lay-off, bad health, and that sort of thing.

But the most important thing is to put this program back on a sound track. So the formula isn't as important as the objective that it accomplishes.

Mr. RHOADES. I would like to add to that, Mr. Smith.

I think it is the ability of the program to respond to changing trends, be they high interest, high inflation and that sort of thing, to assure that as things change that creditworthiness is still being evaluated such that you aren't harming the veteran by allowing that veteran to get into something that ultimately is going to go into default and foreclosure and ruin his credit rating.

Surveys of lenders on a periodic basis to see what trends are developing, I think might be useful in order to enable the VA to respond to those.

Mr. SMITH of New Jersey. Thank you.

Mr. EGAN. There is just one comment I would like to make about your second question to Mr. Johnson, and that is that regardless of whether you go with the realtors or you go with the pure private sector, as I indicated in my opening remarks, I think it is important to remember who this program is supposed to serve.

I didn't hear anybody here today say in their plans to market VA-foreclosed properties that they were willing to go to the Iron Range of Minnesota, or Houston, for example, to market properties. I heard a lot of localities identified that sounded to me like they would be pretty easy places to market property.

So the important thing is to make sure that the properties are marketed, and marketed as quickly as possible, with as minimal a loss in the value of the property as possible. If VA is losing $14,000 or $15,000 per property in Houston, and if they are holding those properties for in excess of 12 or 15 months, then it seems to me that those properties need to be moved much more quickly, whether it be through the National Association of Realtors or Home Equity, or whomever.

Mr. SHELBY. The Chair recognizes the gentleman from Connecticut.

Mr. ROWLAND of Connecticut. Thank you, Mr. Chairman.

I join my colleagues in thanking you for being here this morning to testify. Mr. Rhoades and Mr. Egan, I think you both shared some concern about the OMB overseeing some of the regulations as they go through the process, and some of their interests and their previous actions with regard to veterans' issues.

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Do you think that this particular piece of legislation is more susceptible to regulation, or is the concern that both of you have the general concern that, you have with all legislation going through the regulatory process at OMB?

Mr. RHOADES. I think this particular piece of legislation, because it does specifically prescribe regulation and lays out what ought to be in those regulations, is a problem because they do have to be censored, if you will, by the Office of Management and Budget.

Yes, I think Congress needs to make very clear, in whatever comes out of this legislation what its intent is. I hope that what it would make clear is that this is, first and foremost, a veterans' benefit program. We want a program consistent with good credit standards that still allows the low- to middle-income veteran the opportunity to obtain a house that he or she might not otherwise ever be able to obtain.

Mr. ROWLAND of Connecticut. Mr. Egan, do you have any comment?

Mr. EGAN. No. No comment.

Mr. ROWLAND of Connecticut. Thank you. I share some of those concerns and know that, as we go through the process, we can count on your input to make sure it is fair and equitable and that the pilot program is indeed reflective of what could happen. We look forward to getting more input from you in the next year or so.

Mr. SHELBY. Mr. Johnson, Mr. Egan, Mr. Rhoades and Mr. Schultz, we appreciate your testimony. We appreciate your appearing before us today.

Mr. Egan, one comment you made was rather poignant, and that is that whoever they are, they should be concerned with the Iron Range of Minnesota or somewhere else as much as they are with anything, because it is all part of the VA program, isn't it?

Mr. EGAN. That is absolutely right, and let's not forget that it was last year that the realtors agreed with a 3.8 percent user fee.

Mr. SHELBY. But we didn't agree and we are not going to agree.

Mr. EGAN. No, you didn't.

Mr. SHELBY. I believe it was Mr. Rhoades' comments earlier that we shouldn't abdicate too much, to the VA. Because of OMB's influence over there, there won't be a program, will there, gentlemen?

Thank you. That concludes our hearing.

[Whereupon, at 12:15 p.m. the subcommittee adjourned, subject to the call of the chair.]

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APPENDIX

II

Calendar No. 438

99TH CONGRESS
1ST SESSION

S. 1887

[Report No. 99–200]

To amend title 38, United States Code, to increase the rates of disability compensation for disabled veterans and the rates of dependency and indemnity compensation for surviving spouses and children of veterans, to improve veterans' education benefits, and to improve the Veterans' Administration home loan guaranty program; to amend titles 10 and 38, United States Code, to improve national cemetery programs; and for other purposes.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 26, 1985

Mr. MURKOWSKI, from the Committee on Veterans Affairs', reported, under authority of the order of the Senate of November 23 (legislative day, November 18), 1985, the following original bill; which was read twice and placed on the calendar

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A BILL

To amend title 38, United States Code, to increase the rates of disability compensation for disabled veterans and the rates of dependency and indemnity compensation for surviving spouses and children of veterans, to improve veterans' education benefits, and to improve the Veterans' Administration home loan guaranty program; to amend titles 10 and 38, United States Code, to improve national cemetery programs; and for other purposes.

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Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE AND REFERENCES

SECTION 1. (a) This Act may be cited as the "Veterans' Compensation and Benefits Improvements Act of 1985".

(b) Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of title 38, United States Code.

TITLE I—DISABILITY COMPENSATION AND DEPENDENCY AND INDEMNITY COMPENSATION

RATE INCREASES

SEC. 101. (a) Section 314 is amended—

(1) by striking out "$66" in subsection (a) and inserting in lieu thereof "$68";

(2) by striking out "$122" in subsection (b) and inserting in lieu thereof "$126";

(3) by striking out "$185" in subsection (c) and inserting in lieu thereof "$191";

(4) by striking out "$266" in subsection (d) and inserting in lieu thereof "$274";

(5) by striking out "$376" in subsection (e) and inserting in lieu thereof "$388";

(6) by striking out "$474" in subsection (f) and inserting in lieu thereof "$489";

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(7) by striking out "$598" in subsection (g) and inserting in lieu thereof "$617";

(8) by striking out "$692" in subsection (h) and inserting in lieu thereof "$713";

(9) by striking out "$779" in subsection (i) and inserting in lieu thereof "$803";

(10) by striking out "$1,295" in subsection (j) and inserting in lieu thereof "$1,335";

(11) by striking out "$1,609" and "$2,255" in subsection (k) and inserting in lieu thereof "$1,659" and "$2,325", respectively;

(12) by striking out "$1,609" in subsection (l) and inserting in lieu thereof "$1,659";

(13) by striking out "$1,774" in subsection (m) and inserting in lieu thereof "$1,829";

(14) by striking out "$2,017" in subsection (n) and inserting in lieu thereof "$2,080";

(15) by striking out "$2,255" each place it appears in subsections (o) and (p) and inserting in lieu thereof "$2,325";

(16) by striking out "$968" and "$1,442" in subsection (r) and inserting in lieu thereof "$998" and "$1,487", respectively;

(17) by striking out "$1,449" in subsection (s) and inserting in lieu thereof "$1,494"; and

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(18) by striking out "$280" in subsection (t) and inserting in lieu thereof "$289".

(b) The Administrator of Veterans' Affairs may adjust administratively, consistent with the increases authorized by this section, the rates of disability compensation payable to persons within the purview of section 10 of Public Law 85–857 who are not in receipt of compensation payable pursuant to chapter 11 of title 38, United States Code.

ADDITIONAL COMPENSATION FOR DEPENDENTS

SEC. 102. Section 315(1) is amended—

(1) by striking out "$79" in clause (A) and inserting in lieu thereof "$81";

(2) by striking out "$132" and "$42" in clause (B) and inserting in lieu thereof "$136" and "$43", respectively;

(3) by striking out "$54" and "$42" in clause (C) and inserting in lieu thereof "$56" and "$43", respectively;

(4) by striking out "$64" in clause (D) and inserting in lieu thereof "$66";

(5) by striking out "$143" in clause (E) and inserting in lieu thereof "$147"; and

(6) by striking out "$120" in clause (F) and inserting in lieu thereof "$124".

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CLOTHING ALLOWANCE FOR CERTAIN DISABLED VETERANS

SEC. 103. Section 362 is amended by striking out "$349" and inserting in lieu thereof "$360".

DEPENDENCY AND INDEMNITY COMPENSATION FOR SURVIVING SPOUSES

SEC. 104. Section 411 is amended—

(1) by striking out the table in subsection (a) and inserting in lieu thereof the following:

"Pay grade	Monthly rate	Pay grade	Monthly rate
E–1	$491	W–4	$703
E–2	505	O–1	621
E–3	518	O–2	640
E–4	552	O–3	686
E–5	566	O–4	725
E–6	578	O–5	799
E–7	607	O–6	900
E–8	640	O–7	973
E–9	[1] 669	O–8	1,067
W–1	621	O–9	1,145
W–2	645	O–10	[2] 1,255
W–3	664		

"[1] If the veteran served as sergeant major of the Army, senior enlisted advisor of the Navy, chief master sergeant of the Air Force, sergeant major of the Marine Corps, or master chief petty officer of the Coast Guard, at the applicable time designated by section 402 of this title, the surviving spouse's rate shall be $722.

"[2] If the veteran served as Chairman of the Joint Chiefs of Staff, Chief of Staff of the Army, Chief of Naval Operations, Chief of Staff of the Air Force, Commandant of the Marine Corps, or Commandant of the Coast Guard, at the applicable time designated by section 402 of this title, the surviving spouse's rate shall be $1,345.";

(2) by striking out "$55" in subsection (b) and inserting in lieu thereof "$57";

(3) by striking out "$143" in subsection (c) and inserting in lieu thereof "$147"; and

(4) by striking out "$70" in subsection (d) and inserting in lieu thereof "$72".

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DEPENDENCY AND INDEMNITY COMPENSATION FOR CHILDREN

SEC. 105. Section 413 is amended—

(1) by striking out "$240" in clause (1) and inserting in lieu thereof "$247";

(2) by striking out "$345" in clause (2) and inserting in lieu thereof "$356";

(3) by striking out "$446" in clause (3) and inserting in lieu thereof "$460"; and

(4) by striking out "$446" and "$90" in clause (4) and inserting in lieu thereof "$460" and "$93", respectively.

SUPPLEMENTAL DEPENDENCY AND INDEMNITY COMPENSATION FOR CHILDREN

SEC. 106. Section 414 is amended—

(1) by striking out "$143" in subsection (a) and inserting in lieu thereof "$147";

(2) by striking out "$240" in subsection (b) and inserting in lieu thereof "$247"; and

(3) by striking out "$122" in subsection (c) and inserting in lieu thereof "$126".

EFFECTIVE DATE

SEC. 107. The amendments made by this title shall take effect on December 1, 1985.

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SENSE OF THE CONGRESS REGARDING MAINTAINING THE TAX-EXEMPT STATUS OF DISABILITY COMPENSATION

SEC. 108. It is the sense of the Congress that any payments by the Veterans' Administration to veterans as compensation for service-connected disabilities should remain exempt from Federal income taxation.

TITLE II—EDUCATIONAL ASSISTANCE PROGRAM IMPROVEMENTS

APPRENTICESHIP AND ON-JOB TRAINING UNDER THE NEW GI BILL

SEC. 201. (a) Section 1402 is amended—

(1) by striking out paragraph (3) and inserting in lieu thereof the following:

"(3) The term 'program of education' (A) has the meaning given such term in section 1652(b) of this title, and (B) includes a full-time program of apprenticeship or other on-job training approved as provided in clause (1) or (2), as appropriate, of section 1787(a) of this title."; and

(2) by adding at the end the following new paragraph:

"(7) The term 'training establishment' has the meaning given such term in section 1652(e) of this title.".

(b)(1) Section 1432 is amended by adding at the end the following new subsection:

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"(c)(1) In any month in which an individual pursuing a program of education consisting of a program of apprenticeship or other on-job training fails to complete 120 hours of training, the amount of the monthly educational assistance allowance payable under this chapter to the individual shall be limited to the same proportion of the applicable full-time rate as the number of hours worked during such month, rounded to the nearest 8 hours, bears to 120 hours.

"(2)(A) The amount of the monthly educational assistance allowance for an individual pursuing a full-time program of apprenticeship or other on-job training under this chapter shall be reduced by 50 percent for months following the twelfth month of the individual's pursuit of such program.

"(B) An individual's entitlement under this chapter shall be charged at the rate of one-half month for each month that the individual is paid a monthly educational assistance allowance as reduced under subparagraph (A) of this paragraph.".

(2) The heading of such section is amended to read as follows:

"§ 1432. Limitations on educational assistance for certain individuals".

(3) The item relating to such section in the table of sections at the beginning of chapter 30 is amended to read as follows:

"1432. Limitations on educational assistance for certain individuals.".

(c) Section 1434 is amended—

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(1) in subsection (a), by striking out the parenthetical matter in the first sentence and inserting in lieu thereof "(with the exception of section 1787)"; and

(2) in subsection (b)(2), by inserting "or training establishment, as the case may be," after "educational institution".

ADJUSTMENT OF DELIMITING PERIOD FOR INDIVIDUALS ENTITLED TO CERTAIN COMBINED BENEFITS

SEC. 202. (a) Section 1411(a)(1)(B) is amended by inserting "and was on active duty on October 19, 1984, and without a break in service since October 19, 1984," after "title".

(b) Section 1412(a)(1)(B) is amended by inserting "and was on active duty on October 19, 1984, and without a break in service since October 19, 1984," after "title".

(c) Section 1431 is amended—

(1) by striking out "(d)" in subsection (a) and inserting in lieu thereof "(e)";

(2) by redesignating subsection (e) as subsection (f); and

(3) by inserting after subsection (d) the following new subsection (e);

"(e) In the case of an individual described in section 1411(a)(1)(B) or 1412(a)(1)(B) of this title who is entitled to basic educational assistance under this chapter, the 10-year period prescribed in subsection (a) of this section shall be re-

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duced by an amount of time equal to the amount of time that such individual was not serving on active duty during the period beginning on January 1, 1977, and ending on October 18, 1984.".

EDUCATIONAL ASSISTANCE FOR CORRESPONDENCE COURSES UNDER THE NEW GI BILL

SEC. 203. Section 1434 is amended—

(1) by redesignating subsection (c) as subsection (d); and

(2) by inserting after subsection (b) the following new subsection (c):

"(c) When an eligible individual is pursuing a program of education under this chapter by correspondence, the individual's entitlement under this chapter shall be charged at the rate of 1 month's entitlement for each month of benefits paid to the individual.".

RESPONSIBILITIES OF THE ADVISORY COMMITTEE ON EDUCATION

SEC. 204. Section 1792 is amended—

(1) in subsection (a), by inserting "30," after "chapter"; and

(2) in subsection (b), by inserting "30," after "chapters".

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WORK-STUDY ALLOWANCE UNDER THE NEW GI BILL AND THE POST-VIETNAM ERA VETERANS' EDUCATIONAL ASSISTANCE PROGRAM

SEC. 205. (a) The first sentence of section 1434(a) is amended by striking out "and 1683" and inserting in lieu thereof "1683, and 1685".

(b) Section 1641 is amended by inserting "1685," after "1683,".

(c) The first sentence of section 1685(b) is amended by striking out "education or training under chapters 31 and 34" and inserting in lieu thereof "rehabilitation, education, or training under chapter 30, 31, 32, or 34".

ON-JOB TRAINING UNDER THE POST-VIETNAM ERA VETERANS' EDUCATIONAL ASSISTANCE PROGRAM

SEC. 206. (a) Section 1602 is amended—

(1) by striking out paragraph (2) and inserting in lieu thereof the following:

"(2) The term 'program of education' (A) has the meaning given such term in section 1652(b) of this title, and (B) includes a full-time program of apprenticeship or other on-job training approved as provided in clause (1) or (2), as appropriate, of section 1787(a) of this title."; and

(2) by adding at the end the following new paragraphs:

"(4) The term 'educational institution' has the meaning given such term in section 1652(c) of this title.

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"(5) The term 'training establishment' has the meaning given such term in section 1652(e) of this title.".

(b) Section 1631(a)(2) is amended by striking out "The" and inserting in lieu thereof "Except as provided in section 1633 of this title and subject to section 1641 of this title, the".

(c)(1) Subchapter III of chapter 32 is amended by adding at the end the following new section:

"§ 1633. Apprenticeship or other on-job training

"(a)(1) In any month in which an individual pursuing a program of education consisting of a program of apprenticeship or other on-job training fails to complete 120 hours of training, the amount of the monthly educational assistance allowance payable under this chapter to the individual shall be limited to the same proportion of the applicable full-time rate as the number of hours worked during such month, rounded to the nearest 8 hours, bears to 120 hours.

"(2)(A) The amount of the monthly benefit payment to an individual pursuing a full-time program of apprenticeship or of other on-job training under this chapter shall be reduced by 50 percent for months following the twelfth month of the individual's pursuit of such program.

"(B) An individual's entitlement under this chapter shall be charged at the rate of one-half month for each month that

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the individual is paid a monthly benefit as reduced under subparagraph (A) of this paragraph.".

(2) The table of sections at the beginning of such chapter is amended by inserting after the item relating to section 1632 the following new item:

"1633. Apprenticeship or other on-job training.".

(d) Section 1641 is amended—

(1) by inserting "(a)" before "The";

(2) by striking out "sections 1777, 1780(c), and 1787) shall be applicable to the program." and inserting in lieu thereof "section 1787) shall be applicable with respect to individuals who are pursuing programs of education or training while serving on active duty."; and

(3) by adding at the end the following new subsection:

"(b) The provisions of sections 1663, 1670, 1671, 1673, 1674, 1676, 1683, and 1691(a)(1) of this title and the provisions of chapter 36 of this title (with the exception of section 1787) shall be applicable with respect to individuals who are pursuing programs of education or training following discharge or release from active duty.".

DURATION AND LIMITATIONS ON ENTITLEMENT TO POST-VIETNAM ERA VETERANS' EDUCATIONAL ASSISTANCE

SEC. 207. Section 1632 is amended to read as follows:

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"(a)(1) Except as provided in paragraphs (2) and (3) of this subsection, educational assistance benefits shall not be afforded an eligible veteran under this chapter more than 10 years after the date of such veteran's last discharge or release from active duty.

"(2)(A) If any eligible veteran was prevented from initiating or completing such veteran's chosen program of education during the delimiting period determined under paragraph (1) of this subsection because of a physical or mental disability which was not the result of such veteran's own willful misconduct, such veteran shall, upon application made in accordance with subparagraph (B) of this paragraph, be granted an extension of the applicable delimiting period for such length of time as the Administrator determines, from the evidence, that such veteran was so prevented from initiating or completing such program of education.

"(B) An extension of the delimiting period applicable to an eligible veteran may be granted under subparagraph (A) of this paragraph by reason of the veteran's mental or physical disability only if the veteran submits an application for such extension to the Administrator within 1 year after (i) the last date of the delimiting period otherwise applicable to the veteran under paragraph (1) of this subsection, or (ii) the termination date of the period of the veteran's mental or physical disability, whichever is later.

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"(3) When an extension of the applicable delimiting period is granted an eligible veteran under paragraph (2) of this subsection, the delimiting period with respect to such veteran shall again begin to run on the first day after such veteran's recovery from such disability on which it is reasonably feasible, as determined in accordance with regulations prescribed by the Administrator, for such veteran to initiate or resume pursuit of a program of education with educational assistance under this chapter.

"(b)(1) In the event that an eligible veteran has not utilized any or all of such veteran's entitlement by the end of the delimiting period applicable to the veteran under subsection (a) of this section, such eligible veteran is automatically disenrolled.

"(2)(A) Any contributions which were made by a veteran disenrolled under paragraph (1) of this subsection and remain in the fund shall be refunded to the veteran after notice of disenrollment is transmitted to the veteran and the veteran applies for such refund.

"(B) If an application for refund of contributions under subparagraph (A) of this paragraph is received from a disenrolled veteran within 1 year after the date the notice referred to in such subparagraph is transmitted to the veteran, it shall be presumed, for the purposes of section 1322(a) of title 31,

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that the veteran's whereabouts is unknown and the funds shall be transferred as provided in such section.".

EDUCATIONAL AND VOCATIONAL COUNSELING

SEC. 208. Section 1663 is amended by inserting after the first sentence the following: "In any case in which the Administrator has rated the veteran as being incompetent, such counseling shall be required to be provided to the veteran prior to the selection of a program of education or training.".

DELIMITING PERIOD UNDER THE SURVIVORS' AND DEPENDENTS' EDUCATIONAL ASSISTANCE PROGRAM

SEC. 209. Section 1712(b) is amended by adding at the end the following new paragraph (3):

"(3)(A) Notwithstanding the provisions of paragraph (1) of this subsection, any eligible person (as defined in clause (B), (C), or (D) of section 1701(a)(1) of this title) may, subject to the approval of the Administrator, be permitted to elect a date referred to in subparagraph (B) of this paragraph to commence receiving educational assistance benefits under this chapter. The date so elected shall be the beginning date of the delimiting period applicable to such person under this section.

"(B) The date which an eligible person may elect under subparagraph (A) of this paragraph is any date during the period beginning on the date the person became an eligible person within the meaning of clause (B), (C), or (D) of section

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1701(a)(1) of this title and ending on the date determined under subparagraph (A), (B), or (C) of paragraph (1) of this subsection to be applicable to such person.".

ELIMINATION OF THE REQUIREMENT FOR AN EDUCATION PLAN FOR SURVIVORS AND DEPENDENTS

SEC. 210. (a) Section 1720 is amended to read as follows:

"§ 1720. Educational and vocational counseling.

"The Administrator may, upon request, arrange for educational or vocational counseling for persons eligible for benefits under this chapter to assist such persons in selecting their educational, vocational, or professional objectives and in developing their programs of education.".

(b)(1) Section 1721 is amended—

(A) by striking out "finally";

(B) by striking out clause (1); and

(C) by redesignating clauses (2), (3), (4), and (5) as clauses (1), (2), (3), and (4), respectively.

(2) The catchline of such section is amended to read as follows:

"§ 1721. Approval of application".

(c) The items relating to sections 1720 and 1721 in the table of sections at the beginning of chapter 35 are amended to read as follows:

"1720. Educational and vocational counseling.
"1721. Approval of application.".

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MEASUREMENT OF CERTAIN NONCOLLEGE DEGREE COURSES

SEC. 211. (a)(1) Section 1780(a) is amended—

(A) in clause (1), by inserting a comma and "or a course that meets the requirements of section 1788(a)(7) of this title," after "degree"; and

(B) in clause (2), by inserting "courses that meet the requirements of section 1788(a)(7) of this title and" after "excluding".

(2) Section 1788 is amended—

(1) in subsection (a)—

(A) by striking out "and" at the end of clause (5);

(B) by striking out the period at the end of clause (6) and inserting in lieu thereof a semicolon and "and"; and

(C) by inserting after clause (6) the following new clause:

"(7) an institutional course not leading to a standard college degree, offered by an institution of higher learning in residence on a standard quarter- or semester-hour basis, shall be measured as full time on the same basis as provided in clause (4) of this subsection if (A) such course is approved pursuant to section 1775 of this title, and (B) a majority of the total credits re-

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quired for the course is derived from unit courses or subjects offered by the institution as part of a course, so approved, leading to a standard college degree."; and

(2) in subsection (c), by striking out "(4)".

(b) Section 1788 is amended by inserting at the end the following new subsection:

"(e) For the purpose of determining whether a course—

"(1) which is offered by an institution of higher learning, and

"(2) for which such institution requires one or more unit courses or subjects for which credit is granted toward a standard college degree

will, during the semester (or quarter or other applicable portion of the academic year) when such unit course or subject is being pursued, be considered full time under clause (1) or (2) of subsection (a) of this section, each of the numbers of hours specified in such clause shall be deemed to be reduced, during such semester (or other portion of the academic year), by the percentage described in the following sentence and rounded as the Administrator may prescribe. Such percentage is the percentage that the number of semester hours (or the equivalent thereof) represented by such unit course or subject is of the number of semester hours (or the equivalent thereof)

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which, under clause (4) of such subsection, constitutes a full-time institutional undergraduate course at such institution."

PAYMENT OF EDUCATIONAL ASSISTANCE FOR CERTAIN LESS-THAN-HALF-TIME TRAINING

SEC. 212. The first sentence of section 1780(f) is amended by striking out "during" and inserting in lieu thereof "not later than the last day of".

PROHIBITION ON BENEFITS UNDER MORE THAN ONE EDUCATIONAL ASSISTANCE PROGRAM

SEC. 213. Section 1781(b) is amended by striking out "for the pursuit of the same program of education".

REPORTING REQUIREMENTS FOR EDUCATIONAL INSTITUTIONS

SEC. 214. Section 1784(a) is amended—

(1) by striking out "(a) The" and inserting in lieu thereof "(a)(1) Except as provided in paragraph (2) of this subsection, the"; and

(2) by adding at the end the following new paragraph (2):

"(2) In the case of a program of independent study pursued on less than a half-time basis in an educational institution, the Administrator may approve a delay by the educational institution in reporting the enrollment or reenrollment of an eligible veteran or eligible person until the end of the term, quarter, or semester if the educational institution requests the delay and the Administrator determines that it is

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not feasible for the educational institution to monitor interruption or termination of the veteran's or eligible person's pursuit of such program.".

PROHIBITION OF A TERM-BY-TERM CERTIFICATION REQUIREMENT

SEC. 215. Section 1784(a) (as amended by section 214 of this Act) is further amended by adding at the end the following new paragraph (3):

"(3)(A) Subject to subparagraph (B), an educational institution offering courses on a term, quarter, or semester basis may certify the enrollment of a veteran who is not on active duty or an eligible person in such courses for more than one term, quarter, or semester at a time, but not for a period extending beyond the end of a school year (including the summer enrollment period).

"(B) Subparagraph (A) of this paragraph shall not apply with respect to any term, quarter, or semester for which the veteran or eligible person is enrolled on a less than half-time basis and shall not be construed as restricting the Administrator from requiring that an educational institution, in reporting an enrollment for more than one term, quarter, or semester, specify the dates of any intervals within or between any such terms, quarters, or semesters.".

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COMMISSION TO ASSESS VETERANS' EDUCATION POLICY

SEC. 216. (a)(1) There is established a Commission on Veterans' Education Policy (hereafter in this section referred to as the "Commission").

(2)(A) The Commission shall consist of 11 members, 10 of whom shall be appointed by the Administrator of Veterans' Affairs in consultation with the chairmen and the ranking minority members of the Committees on Veterans' Affairs of the Senate and of the House of Representatives (hereafter in this section referred to as "the Committees"), and 1 of whom shall be the Chairman of the Advisory Committee on Education established under section 1792 of title 38, United States Code.

(B) The members of the Commission (i) shall be broadly representative of entities engaged in providing education and training and of veterans' service organizations, and (ii) shall be selected on the basis of their knowledge of and experience in education and training policy and the implementation of such policy with respect to programs of assistance administered by the Veterans' Administration.

(3) The Administrator of Veterans' Affairs, the ex officio members of the Advisory Committee on Education referred to in paragraph (2)(A), and the chairmen and ranking minority members of the Committees, or a designee of any such

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individual, shall be ex officio, nonvoting members of the Commission.

(4)(A) The Administrator shall designate a member from among the voting members of the Commission to chair the Commission.

(B) The chairperson of the Commission, with the concurrence of the Commission, shall appoint an executive director, who shall be the chief executive officer of the Commission and shall perform such duties as are prescribed by the Commission.

(C) The Administrator shall furnish the Commission with such professional, technical, and clerical staff and services as the Commission determines necessary for the Commission to carry out the provisions of this section effectively.

(b)(1) Not later than 18 months after the date on which at least 8 members of the Commission have been appointed, the Commission shall submit a report on the Commission's findings and recommendations on the matters described in paragraph (2) of this subsection to the Administrator and the Committees.

(2) The report required by paragraph (1) shall include the Commission's findings, views, and recommendations on the following matters:

(A) The need for distinctions between certificate-granting courses and degree-granting courses.

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(B) The measurement of courses for the purposes of payment of educational assistance benefits.

(C) The vocational value of courses offered through home study.

(D) The role of innovative and nontraditional programs of education and the manner in which such programs should be treated for purposes of payment of educational assistance benefits by the Veterans' Administration.

(E) Such other matters relating to administration of chapters 30, 31, 32, 34, 35, and 36 of title 38, United States Code, by the Veterans' Administration as (i) the Commission considers appropriate or necessary, or (ii) are suggested by the Administrator or, concurrently, by the chairmen and ranking minority members of the Committees.

(c)(1) Not later than 6 months after the date on which the report is submitted under subsection (b), the Administrator shall submit an interim report to the Committees. The interim report shall contain—

(A) the Administrator's views on the desirability, feasibility, and cost of implementing each of the Commission's recommendations, and the actions taken or planned with respect to the implementation of such recommendations;

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(B)(i) the Administrator's views on any legislation or regulations proposed by the Commission, (ii) the Administrator's views on the need for any alternative or additional legislation or regulations to implement the Commission's recommendations, (iii) the Administrator's recommendations for any such alternative or additional legislation, (iv) the proposed text of any regulations referred to in subclause (i) or (ii) which the Administrator considers necessary and the proposed text of any legislation referred to in such subclause which is recommended by the Administrator, and (v) a cost estimate for the implementation of any regulations and legislation referred to in such subclause; and

(C) any other proposals that the Administrator considers appropriate considering the Commission's report.

(2) Not later than 90 days after the date on which the Administrator's interim report is submitted under paragraph (1), the Commission shall submit a report to the Administrator and the Committees containing the Commission's views on the Administrator's interim report.

(3) Not later than 2 years after the date on which the Commission's report is submitted under subsection (b), the Administrator shall submit a final report to the Committees. The final report shall include the actions taken with respect

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to the recommendations of the Commission and any further recommendations the Administrator considers appropriate.

(d) The Commission shall terminate 90 days after the date on which the Administrator submits the final report required by subsection (c)(3).

TECHNICAL AMENDMENTS

SEC. 217. (a) Section 1431(e)(2) is amended by inserting "not" after "educational institution".

(b)(1) The catchline of section 1631 is amended to read as follows:

"§ 1631. Entitlement; payment of benefits".

(2) The table of sections at the beginning of chapter 32 is amended by striking out the item relating to section 1631 and inserting in lieu thereof the following:

"1631. Entitlement; payment of benefits.".

(c) Section 1781(b)(2) is amended by striking out "Chapter 107" and inserting in lieu thereof "Chapters 106 and 107".

TITLE III—SPECIALLY ADAPTED HOUSING AND HOME LOAN GUARANTY PROGRAM IMPROVEMENTS

SPECIALLY ADAPTED HOUSING

SEC. 301. (a) Section 801(b)(1) is amended by inserting before the period at the end the following: "or in acquiring a residence already adapted with special features determined

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by the Administrator to be reasonably necessary for the veteran because of such disability".

(b) Section 802(b)(1) is amended by striking out "cost" and inserting in lieu thereof "cost, or, in the case of a veteran acquiring a residence already adapted with special features, the fair market value,".

CREDIT UNDERWRITING AND LOAN PROCESSING STANDARDS

SEC. 302. (a) Section 1810(b)(3) is amended by inserting a comma and "as determined in accordance with the credit underwriting standards established pursuant to subsection (g) of this section" before the semicolon at the end.

(b) Section 1810 is further amended by adding at the end the following new subsection:

"(g)(1) For the purposes of this subsection, the term 'veteran', when used with respect to a loan guaranteed or to be guaranteed under this chapter, includes the veteran's spouse if the spouse is jointly liable with the veteran under the loan.

"(2) For the purpose of determining whether a veteran meets the standards referred to in subsection (b)(3) of this section and section 1819(e)(2) of this title, the Administrator shall prescribe regulations which establish—

"(A) credit underwriting standards to be used in evaluating loans to be guaranteed under this chapter; and

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"(B) standards to be used by lenders in obtaining credit information and processing loans to be guaranteed under this chapter.

"(3) In the regulations prescribed under paragraph (2) of this subsection, the Administrator shall establish standards that—

"(A) include—

"(i) debt-to-income ratios to apply in the case of the veteran applying for the loan;

"(ii) criteria for evaluating the reliability and stability of the income of the veteran applying for the loan; and

"(iii) procedures for ascertaining the monthly income required by the veteran to meet the anticipated loan payment terms; and

"(B) are designed to be in accordance with the loan underwriting principles and application procedures generally accepted and used by commercial lending institutions with respect to loans with comparable security arrangements.

"(4)(A) Any lender making a loan under this chapter shall certify, in such form as the Administrator shall prescribe, that the lender has complied with the credit information and loan processing standards established under paragraph (2)(B) of this subsection, and that, to the best of the

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lender's knowledge and belief, the loan meets the underwriting standards established under paragraph (2)(A) of this subsection.

"(B) Any lender who knowingly and willfully makes a false certification under subparagraph (A) of this paragraph shall be liable to the United States Government for a civil penalty equal to two times the amount of the Administrator's loss on the loan involved or to another appropriate amount, not to exceed $10,000, whichever is greater. All determinations necessary to carry out this subparagraph shall be made by the Administrator.

"(5) Pursuant to regulations prescribed to carry out this paragraph, the Administrator may, in extraordinary situations, waive the application of the credit underwriting standards established under paragraph (2) of this subsection when the Administrator determines, considering the totality of circumstances, that the veteran is a satisfactory credit risk.".

(c) Section 1816 is amended by adding at the end the following new subsection:

"(e) The Administrator may not make a loan to finance a purchase of property acquired by the Administrator as a result of a default on a loan guaranteed under this chapter unless the purchaser meets the credit underwriting standards established under section 1810(g)(2)(A) of this title.".

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(d) Section 1819(e)(2) is amended by inserting "as determined in accordance with the regulations prescribed under section 1810(g) of this title and" after "credit risk,".

LOAN GUARANTY AMOUNT

SEC. 303. (a) Section 1810(o) is amended by striking out "$27,500" and inserting in lieu thereof "$33,500".

(b) Section 1811(d)(2)(A) is amended by striking out "$27,500" each place it appears and inserting in lieu thereof "$33,500".

DEFAULT NOTIFICATION AND FORECLOSURE PROCEDURES; FORECLOSURE INFORMATION

SEC. 304. (a) Section 1816(a)(1) is amended by striking out the first sentence and inserting in lieu thereof the following: "The holder of a loan guaranteed under this chapter shall promptly notify the Administrator of any failure of the debtor under the loan to make in full two monthly payments due on the loan. Within 15 days after the date on which the Administrator receives such notification, the Administrator shall notify the veteran of the requirement set forth in paragraph (4) of this subsection.".

(b) Section 1816(a) is further amended by adding at the end the following new paragraph:

"(4) Except as provided in paragraph (2) of this subsection, not later than 15 days after the first date on which a veteran has failed to make in full four monthly payments due

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on any loan guaranteed under this chapter, the holder of the loan shall initiate foreclosure.".

(c) Section 1816 is further amended by adding at the end the following new subsections:

"(e) If a holder of a loan guaranteed under this chapter fails to initiate foreclosure on the loan as required by subsection (a)(4) of this section, the Administrator shall not be liable under the guaranty for interest accruing on such loan during the period beginning on the date the holder should have initiated the foreclosure and ending on the date the holder initiates the foreclosure.

"(f)(1) The Administrator shall identify and compile information on common factors which the Administrator finds contribute to foreclosures on loans guaranteed under this chapter.

"(2) The Administrator shall include the Administrator's findings under paragraph (1) of this subsection in the annual report submitted to the Congress under section 214 of this title.".

COMPETITIVE CONTRACTING REQUIREMENTS

SEC. 305. Section 1820(b) is amended by striking out "$1,000" and inserting in lieu thereof "the amount prescribed in clause (1) of the first sentence of such section".

AUTHORITY TO TRANSFER FUNDS

SEC. 306. Section 1823 is amended by adding at the end the following new subsection:

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"(d)(1) The Secretary of the Treasury shall transfer from the direct loan revolving fund to the loan guaranty revolving fund established by section 1824(a) of this title such amounts as the Administrator determines are not needed in the direct loan revolving fund.

"(2) Not later than 30 days after the date on which the Administrator makes a transfer under paragraph (1) of this subsection, the Administrator shall submit a notice of such transfer to the appropriate committees of the Congress.".

USE OF ATTORNEYS IN HOME LOAN FORECLOSURES

SEC. 307. The second sentence of section 1830(a) is amended by striking out "With the concurrence of the Attorney General of the United States, the" and inserting in lieu thereof "The".

APPRAISALS

SEC. 308. (a) Subchapter III of chapter 37 is amended by adding at the end the following new section 1831:

"**§ 1831. Appraisals**

"(a) The Administrator shall—

"(1) prescribe—

"(A) standardized examinations on appraising, taking into consideration local appraising practices; and

"(B) uniform qualifications for appraisers;

"(2) use such examinations and qualifications in determining whether to approve an appraiser to make

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appraisals of the reasonable value of any property, construction, repairs, or alterations for the purposes of this chapter; and

"(3) in consultation with appropriate representatives of institutions which are regularly engaged in making housing loans, develop and maintain a list of appraisers who are approved under clause (2) of this subsection to make appraisals for the purposes of this chapter.

"(b) The Administrator shall select appraisers from the list required by subsection (a)(3) of this section on a rotating basis to make appraisals for the purposes of this chapter.

"(c) The Administrator shall furnish a copy of the appraisal made of property for the purposes of this chapter to the lender proposing to make the loan which is to be secured by such property and is to be guaranteed under this chapter.

"(d) If a lender—

"(1) has proposed to make a loan to be guaranteed under this chapter,

"(2) has been furnished an appraisal of the reasonable value of any property or of any construction, repairs, or alterations of property which is to be the security for such loan, as required by subsection (c) of this section, and

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"(3) within a reasonable period prescribed by the Administrator, has furnished to the Administrator an additional appraisal of the reasonable value of such property, construction, repairs, or alterations which was made by an appraiser selected by the lender from the list required by subsection (a)(3) of this section,

the Administrator shall consider both the initial appraisal and the additional appraisal before issuing a certificate of reasonable value of such property, construction, repairs, or alterations.

"(e) The Administrator shall establish such appraisal fee limitations as the Administrator considers appropriate to ensure that appraisers making appraisals in any locality for the purposes of this chapter are paid a fee which is comparable to fees generally paid for other comparable appraisals in such locality.".

(b) The table of sections at the beginning of such chapter is amended by inserting after the item relating to section 1830 the following new item:

"1831. Appraisals.".

FURNISHING INFORMATION TO REAL ESTATE PROFESSIONALS TO FACILITATE THE DISPOSITION OF PROPERTIES

SEC. 309. (a) Subchapter III of chapter 37 (as amended by section 308 of this Act) is further amended by adding at the end the following new section 1832:

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"§ 1832. Furnishing information to real estate professionals to facilitate the disposition of properties

"The Administrator shall furnish to real estate brokers and other real estate sales professionals information on the availability of real property for disposition under this chapter and the procedures used by the Veterans' Administration to dispose of such property.".

(b) The table of sections at the beginning of such chapter is amended by inserting after the item relating to section 1831, as added by section 308(b) of this Act, the following new item:

"1832. Furnishing information to real estate professionals to facilitate the disposition of properties.".

TASK FORCE ON MANAGEMENT AND DISPOSITION OF PROPERTY

SEC. 310. (a)(1) Not later than 90 days after the date of the enactment of this Act, the Administrator of Veterans' Affairs shall establish a task force to be known as the Task Force on Management and Disposition of Property (hereafter in this section referred to as the "Task Force"). The Task Force shall terminate 3 years after the date on which the Task Force is established.

(2) The purposes of the Task Force are—

(A) to develop effective methods for the exchange of information between the Veterans' Administration and the real estate industry on efficient real property

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management and disposition practices and new developments in such practices; and

(B) to advise the Administrator on ways to improve the manner in which the Veterans' Administration manages and disposes of real property acquired under chapter 37 of title 38, United States Code.

(3) The members of the Task Force shall be appointed by the Administrator and shall include—

(A) appropriate representatives of the Veterans' Administration;

(B) real estate brokers and other real estate sales professionals; and

(C) representatives of commercial residential real property management organizations.

(4) The Administrator shall designate one member to chair the Task Force.

(5) The Administrator shall prescribe the number and terms of service of members of the Task Force.

(b) The Administrator shall, on a regular basis, consult with and seek the advice of the Task Force with respect to matters relating to the purposes of the Task Force.

(c)(1)(A) Not later than 16 months after the date on which the Task Force is established under subsection (a), the Task Force shall submit to the Administrator a report on the activities of the Task Force during the preceding year.

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(B) Not later than the day before the date on which the Task Force terminates, the Task Force shall submit to the Administrator a final report on the activities of the Task Force.

(C) Each report required by this paragraph shall include such recommendations relating to the purposes of the Task Force as the Task Force considers appropriate.

(2) The Task Force may also submit to the Administrator such other reports relating to the purposes of the Task Force as the Task Force considers appropriate and may include recommendations with respect to matters relating to such purposes in such reports.

(d) Not later than 60 days after the date on which the Administrator receives a report required by subsection (c)(1) of this section, the Administrator shall submit such report, together with such comments and recommendations as the Administrator considers appropriate, to the Committees on Veterans' Affairs of the Senate and the House of Representatives

PROPERTY MANAGEMENT AND DISPOSAL PILOT PROGRAM

SEC. 311. (a) In order to evaluate the effectiveness, feasibility, and desirability of contracting with commercial organizations to perform the functions of management and disposal of properties acquired by the Veterans' Administration under chapter 37 of title 38, United States Code, the Administrator of Veterans' Affairs, during the period beginning

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April 1, 1986, and ending September 30, 1987, shall conduct a pilot program under which the Administrator shall contract with one or more qualified commercial organizations for the performance of such functions.

(b) In order to carry out the pilot program under this section, the Administrator shall—

(1) designate a representative nationwide sample of 10 percent of the inventory of properties held by the Veterans' Administration and referred to in subsection (a); and

(2) enter into contracts with one or more qualified commercial organizations to manage the properties in the designated sample and to dispose of such properties through the use of local real estate brokers and other real estate sales professionals.

(c) Not later than February 1, 1988, the Administrator shall submit to the Committees on Veterans' Affairs of the Senate and the House of Representatives a report on the experience under the pilot program. The report shall include—

(1) the Administrator's assessment of the cost effectiveness of the program taking into account—

(A) the effectiveness of the program in providing quality management and timely disposition of properties acquired by the Veterans' Adminis-

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tration under chapter 37 of title 38, United States Code; and

(B) a comparison of the cost of the program with the cost of management and disposal of properties by the Veterans' Administration under such chapter;

(2) a description of the effects, if any, which the program had on the functions and duties performed by employees of the Veterans' Administration; and

(3) any recommendations for legislation which the Administrator considers appropriate.

EFFECTIVE DATES

SEC. 312. (a) The amendments made by sections 302, 303, 304, and 308 shall take effect September 1, 1986.

(b) The amendments made by section 301 shall apply with respect to residences acquired after the date of the enactment of this Act.

TITLE IV—NATIONAL CEMETERY SYSTEM

NATIONAL CEMETERY GRAVE MARKERS

SEC. 401. (a) Section 1004(c) is amended—

(1) by inserting "(1)" after "(c)"; and

(2) by adding at the end the following new paragraphs (2) and (3):

"(2)(A) Except as provided in subparagraph (B) of this paragraph, the Administrator shall designate a section in each national cemetery in which persons eligible for inter-

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ment may be buried in graves to be marked with upright grave markers pursuant to paragraph (3)(B) of this subsection.

"(B) Subparagraph (A) shall not apply to a national cemetery established before January 1, 1986, if the Administrator has never, before that date, authorized graves in such cemetery to be marked with upright markers.

"(3)(A) Except as provided in subparagraph (B) of this paragraph, each marker in a national cemetery shall be flat.

"(B) If a person to be buried in a national cemetery (or the survivor or the legal representative of such person) has requested that the person's grave be marked with an upright marker and space is available in a section designated under paragraph (2)(A) of this section for graves marked with upright markers, the person shall be buried in such section and an upright marker shall be used to mark the grave.".

(b) The amendments made by subsection (a) shall apply with respect to markers for the graves of persons who die on or after July 1, 1986.

REPORT ON THE NATIONAL CEMETERY SYSTEM

SEC. 402. (a) Not later than 18 months after the date of the enactment of this Act, the Administrator of Veterans' Affairs shall submit to the Committees on Veterans' Affairs of the Senate and the House of Representatives a report on the National Cemetery System established by section 1000 of title 38, United States Code. The Administrator shall submit

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a second such report not later than 60 months after such date.

(b) Each report required by subsection (a) shall include—

(1) a plan for the operation of the National Cemetery System through the year 2000, including a description of anticipated general trends relating to the operation of the National Cemetery System between the years 2000 and 2020 and a discussion of the provisions of the plan which were developed in response to those trends;

(2) a list, in order of priority, of the 10 geographic areas in the United States in which the need for additional burial space for veterans is greatest;

(3) assessments of the desirability and feasibility of acquiring existing State veterans' cemeteries in the geographic areas identified on the list described in clause (2) and of the role of State veterans' cemeteries generally in meeting the needs for burial space for veterans; and

(4) general plans (including projected costs, site location, and, if appropriate, necessary land acquisition) for any anticipated expansion of the National Cemetery System, including plans for meeting (A) the need for burial space for veterans in each geographic area iden-

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tified on the list described in clause (2), and (B) the need for burial space in cemeteries other than cemeteries in the National Cemetery System in those areas.

MEMORIAL AREAS IN ARLINGTON NATIONAL CEMETERY

SEC. 403. (a) Chapter 75 of title 10, United States Code, is amended by adding at the end the following new section 1491:

"§ 1491. Memorial areas in Arlington National Cemetery

"(a) The Secretary of the Army may set aside, when available, a suitable area or areas in Arlington National Cemetery, Virginia, to honor the memory of members of the armed forces and veterans (as defined in section 101(2) of title 38)—

"(1) who are missing in action;

"(2) whose remains have not been recovered or identified;

"(3) whose remains were buried at sea, whether by the member's or veteran's own choice or otherwise;

"(4) whose remains were donated to science; or

"(5) whose remains were cremated and whose ashes were scattered without interment of any portion of the ashes.

"(b) Under regulations prescribed by the Secretary, appropriate memorials or markers may be erected in Arlington National Cemetery to honor the memory of those individuals, or group of individuals, referred to in subsection (a).".

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(b) The table of sections at the beginning of such chapter is amended by adding at the end the following new item:

"1491. Memorial areas in Arlington National Cemetery.".

TITLE V—MISCELLANEOUS PROVISIONS

CLARIFICATION OF REQUIREMENT FOR A DETAILED PLAN AND JUSTIFICATION FOR ADMINISTRATIVE REORGANIZATION

SEC. 501. (a) Subparagraph (C) of section 210 (b)(2) is amended by inserting at the end the following new division:

"(iii) The term 'detailed plan and justification' means, with respect to an administrative reorganization, a written report which, at a minimum—

"(I) specifies the number of employees by which each covered office or facility affected is to be reduced, the responsibilities of those employees, and the means by which the reduction is to be accomplished;

"(II) identifies any existing or planned office or facility at which the number of employees is to be increased and specifies the number and responsibilities of the additional employees at each such office or facility;

"(III) describes the changes in the functions carried out at any existing office or facility and the functions to be assigned to an office or facility not in existence on the date that the plan and jus-

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tification are submitted pursuant to subparagraph (A) of this paragraph;

"(IV) explains the reasons for the determination that the reorganization is appropriate and advisable in terms of the statutory missions and long-term goals of the Veterans' Administration;

"(V) describes the effects that the reorganization may have on the provision of benefits and services to veterans and dependents of veterans (including the provision of benefits and services through offices and facilities of the Veterans' Administration not directly affected by the reorganization); and

"(VI) provides estimates of the costs of the reorganization and of the cost impact of the reorganization, together with analyses supporting those estimates.".

(b)(1) Except as provided in paragraph (2), the amendment made by subsection (a) shall take effect with respect to administrative reorganizations proposed to be carried out in fiscal years beginning after fiscal year 1986.

(2) The amendment made by subsection (a) applies to the administrative reorganization referred to in the letters from the Administrator of Veterans' Affairs to the Committees on Veterans' Affairs of the Senate and the House of

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Representatives, dated February 1, 1985, relating to the consolidation of certain Veterans' Administration Department of Veterans' Benefits activities from 59 regional offices into three processing centers.

DEFINITION OF VIETNAM ERA

SEC. 502. Section 101(29) is amended to read as follows:

"(29) The term 'Vietnam era' means (A) the period beginning on August 5, 1964, and ending on May 7, 1975, or (B) the period beginning on February 21, 1961, and ending on May 7, 1975, in the case of a veteran who served in the Republic of Vietnam during such period.".

EFFECT OF PAYMENT FOR THERAPEUTIC AND REHABILITATION ACTIVITIES ON PENSION ENTITLEMENT

SEC. 503. (a) Section 618 is amended by adding at the end the following new subsection:

"(g) Notwithstanding any other provision of law, no amount of remuneration provided to an individual as a participant in a therapeutic or rehabilitative activity carried out pursuant to this section shall be included in determining annual income for purposes of pension payments under laws administered by the Administrator.".

(b) The amendment made by subsection (a) shall take effect with respect to pension payments made on or after January 1, 1986.

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ESTATE LIMITATIONS RELATING TO INCOMPETENT INSTITUTIONALIZED VETERANS

SEC. 504. Section 3203(b)(1)(A) is amended—

(1) by striking out "$1,500" and inserting in lieu thereof "$6,000"; and

(2) by striking out "$500" and inserting in lieu thereof "$2,000".

EVALUATION OF THE NEEDS OF NATIVE AMERICAN VETERANS

SEC. 505. (a)(1) Not later than February 1, 1986, the Administrator of Veterans' Affairs shall establish an advisory committee to conduct an evaluation to determine the extent to which the programs and other activities of the Veterans' Administration meet the needs of veterans who are Native Americans, including Alaska Natives (as defined in section 3(b) of the Alaska Native Claims Settlement Act (85 Stat. 689; 43 U.S.C. 1602(b)).

(2) The advisory committee shall consist of—

(A) the Secretary of Labor (or a representative of the Secretary of Labor designated by the Secretary after consultation with the Assistant Secretary of Labor for Veterans' Employment);

(B) the Chief Medical Director and Chief Benefits Director of the Veterans' Administration or their representatives; and

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(C) members appointed by the Administrator from the general public, including—

(i) representatives of veterans who are Native Americans, including Alaska Natives and those with service-connected disabilities; and

(ii) individuals who are recognized authorities in fields pertinent to the needs of veterans described in subclause (i), including specific health care needs of such veterans and the delivery of health care services by the Veterans' Administration to such veterans.

(b) The evaluation required by subsection (a)(1) shall include—

(1) an assessment of the needs of the veterans described in subsection (a)(1) for health care, rehabilitation, readjustment counseling, drug and alcohol counseling, outreach services, and other benefits and assistance under programs administered by the Veterans' Administration; and

(2) a review of the manner in which and the extent to which the programs and other activities of the Veterans' Administration meet such needs.

(c)(1)(A) Not later than August 1, 1987, the advisory committee shall submit to the Administrator a report contain-

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ing the findings and any recommendations of the advisory committee on the matters described in subsection (b).

(B) Not later than August 1, 1988, the advisory committee shall submit to the Administrator a report containing any views developed by the advisory committee after August 1, 1987, on the recommendations included in the report required by subparagraph (A) and the views of the advisory committee on any actions taken by the Administrator on such recommendations.

(2)(A) Not later than October 1, 1987, the Administrator shall submit to the Committees on Veterans' Affairs of the Senate and the House of Representatives the report submitted by the advisory committee to the Administrator under paragraph (1), together with any comments on the report and recommendations relating to such report that the Administrator considers appropriate.

(B) Not later than October 1, 1988, the Administrator shall submit to the Committees on Veterans' Affairs of the Senate and the House of Representatives the report submitted by the advisory committee to the Administrator under paragraph (1)(B), together with any comments and recommendations relating to the report that the Administrator considers appropriate.

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(d) The Administrator shall determine the number and pay and allowances of members of the advisory committee appointed by the Administrator.

(e) The advisory committee shall terminate 90 days after the date on which the Administrator submits the report required by subsection (c)(2)(B).

COLLOCATION OF REGIONAL OFFICES AND MEDICAL CENTERS; ASSESSMENT OF COMBINING NEARBY REGIONAL OFFICES

SEC. 506. (a)(1) Not later than June 1, 1986, the Administrator of Veterans' Affairs shall submit to the Committees on Veterans' Affairs of the Senate and the House of Representatives a plan, including a schedule, for collocating at least 7 regional offices of the Veterans' Administration described in paragraph (3) with Veterans' Administration medical centers on the grounds of such medical centers. The plan and schedule shall provide for the collocations to be commenced and completed as soon as practicable.

(2) The plan required by paragraph (1) shall include—

(A) an analysis of the estimated costs and savings which would result from the collocations;

(B) the advantages and costs of furnishing personnel, supply, administration, and finance services and other supporting services jointly to regional offices of the Veterans' Administration and Veterans' Administration medical centers; and

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(C) any other advantages and any disadvantages of such collocations relating to costs and the provision of benefits and services to veterans.

(3) The regional offices referred to in paragraphs (1) and (2) are regional offices of the Veterans' Administration which are not located at Veterans' Administration medical centers on the date of the enactment of this Act.

(b) The Administrator of Veterans' Affairs may submit together with the plan submitted under subsection (a) any assessment that the Administrator has made of the advantages, disadvantages, and costs of combining regional offices of the Veterans' Administration which, on the date of enactment of this Act, are located near each other.

VIETNAM EXPERIENCE STUDY OF THE HEALTH STATUS OF WOMEN VIETNAM VETERANS

SEC. 507. (a)(1)(A) Except as provided in paragraph (2), the Administrator of Veterans' Affairs shall provide, through contracts or other agreements with private or public agencies or persons, for the conduct of an epidemiological study of any long-term, adverse, and gender-specific health effects and other health effects which have been experienced by women who served in the Armed Forces of the United States in the Republic of Vietnam during the Vietnam era and which may have resulted from (i) traumatic experiences, (ii) from exposure to phenoxy herbicides (including the herbicide known as Agent Orange), to other herbicides, chemicals, or medications

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that may have deleterious health effects, or to environmental hazards during such service, or (iii) from any other similar experience or exposure during such service.

(B) The Administrator may also include in the study conducted under subparagraph (A) an evaluation of the means of detecting and treating long-term, adverse, and gender-specific health effects and other health effects found through the study.

(2)(A) If the Administrator, in consultation with the Director of the Office of Technology Assessment, determines that it is not feasible to conduct a scientifically valid study of an aspect of the matters described in paragraph (1)(A)—

(i) the Administrator shall promptly submit to the appropriate committees of the Congress a notice of that determination and the reasons for the determination; and

(ii) the Director, not later than 60 days after the date on which such notice is submitted to the committees, shall submit to such committees a report evaluating and commenting on such determination.

(B) The Administrator is not required to study any aspect with respect to which a determination or determinations have been made and a notice or notices have been submitted pursuant to subparagraph (A)(i).

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(C) If the Administrator notifies the Congress of a determination made pursuant to subparagraph (A) that it is not scientifically feasible to conduct the study described in paragraph (1)(A), this section shall cease to be effective as if the section were repealed by law on the date of the notification under this subparagraph.

(b)(1) The study required by subsection (a) shall be conducted in accordance with a protocol approved by the Director of the Office of Technology Assessment.

(2) Not later than April 1, 1986, the Administrator shall publish a request for proposals for the design of the protocol to be used in conducting the study under this section.

(3) In considering any protocol for use or approval under this section, the Administrator and the Director shall take into consideration the protocol approved under section 307(a)(2)(A)(i) of the Veterans Health Programs Extension and Improvement Act of 1979 (Public Law 96-151; 93 Stat. 1097; 38 U.S.C. 219 note), and the experience under the study being conducted pursuant to that protocol.

(c)(1) Concurrent with the approval or disapproval of any protocol under subsection (b)(1), the Director shall submit to the appropriate committees of the Congress a report—

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(A) explaining the reasons for the Director's approval or disapproval of the protocol, as the case may be; and

(B) containing the Director's conclusions regarding the scientific validity and objectivity of the protocol.

(2) If the Director has not approved a protocol under subsection (b)(1) by the last day of the 180-day period beginning on the date of the enactment of this Act, the Director—

(A) shall, on such day, submit to the appropriate committees of the Congress a report describing the reasons why the Director has not approved such a protocol; and

(B) shall submit to such committees an updated report on the report required by clause (A) each 60 days thereafter until such a protocol is approved.

(d)(1) In order to ensure compliance with the protocol approved under subsection (b)(1)(A), the Director shall monitor the conduct of the study under subsection (a).

(2)(A) The Director shall submit to the appropriate committees of the Congress, at each of the times specified in subparagraph (B), a report on the Director's monitoring of the conduct of the study pursuant to paragraph (1).

(B) A report shall be submitted under subparagraph (A)—

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(i) before the end of the 6-month period beginning on the date on which the Director approves the protocol referred to in paragraph (1);

(ii) before the end of the 12-month period beginning on such date; and

(iii) annually thereafter until the study is completed or terminated.

(e) The study conducted pursuant to subsection (a) shall be continued for as long after the date on which the first report is submitted under subsection (f)(1) as the Administrator determines that there is a reasonable possibility of developing, through such study, significant new information on the health effects described in subsection (a)(1)(A).

(f)(1) Not later than 24 months after the date of the approval of the protocol pursuant to subsection (b)(1)(A) and annually thereafter, the Administrator shall submit to the appropriate committees of the Congress a report containing—

(A) a description of the results obtained before the date of such report under the study conducted pursuant to subsection (a); and

(B) any administrative actions or recommended legislation, or both, and any additional comments which the Administrator considers appropriate in light of such results.

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(2) Not later than 90 days after the date on which each report required by paragraph (1) is submitted, the Administrator shall publish in the Federal Register for public review and comment a description of any action that the Administrator plans or proposes to take with respect to programs administered by the Veterans' Administration based on (A) the results described in such report, (B) the comments and recommendations received on that report, and (C) any other available pertinent information. Each such description shall include a justification or rationale for the planned or proposed action.

(g) For the purposes of this section—

(1) the term "gender-specific health effects" includes (A) effects on female reproductive capacity and reproductive organs, (B) reproductive outcomes, (C) effects on female-specific organs and tissues, and (D) other effects unique to the physiology of females; and

(2) the term "Vietnam era" has the meaning given such term in section 101(29) of title 38, United States Code.

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STATEMENT BY THE HONORABLE DON SUNDQUIST BEFORE THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS ON THE HOUSING PROVISIONS OF S. 1887
MARCH 5, 1986

MR. CHAIRMAN:

FIRST OF ALL, I WANT TO CONFIRM MY WHOLEHEARTED SUPPORT OF THE V.A. HOME LOAN PROGRAM. I WAS VERY PLEASED WITH THE HOUSE'S QUICK ACTION IN PASSING THE BILL TO ALLOW THE PROGRAM TO CONTINUE TO OPERATE.

MANY VETERANS WHO ARE NOW IN THE FINANCIAL POSITION TO PURCHASE A HOME FOR THE FIRST TIME WILL NOT BE DENIED THE OPPORTUNITY TO DO SO. IN ADDITION, ALLOWING THE VETERANS TO CONTINUE TO BE ABLE TO REFINANCE THEIR LOANS AT LOWER RATES MAKES THE RISK MUCH LESS. HOPEFULLY, THIS WILL LEAD TO A REDUCTION IN THE FORECLOSURE RATE.

ONCE AGAIN, WITH RESPECT TO V.A. FORECLOSURES, I WANT TO BRING TO YOUR ATTENTION LEGISLATION I HAVE INTRODUCED THIS SESSION. MY BILL WOULD ALLOW THE V.A. THE OPPORTUNITY TO SELL V.A.-OWNED PROPERTIES AT DISCOUNTED PRICES TO VIETNAM VETERANS.

IF A HOME IS HELD FOR MORE THAN ONE YEAR, A 30-PERCENT REDUCTION WILL BE ALLOWED; SIX MONTHS TO ONE YEAR, A 25-PERCENT REDUCTION, THREE TO SIX MONTHS, A 20-PERCENT REDUCTION.

THE INTENT OF THE BILL IS CLEARLY TO SELL QUICKLY THE CURRENT V.A. FORECLOSURE PROPERTIES IN ORDER TO RELIEVE THE V.A. OF MAINTAINING THEM. ADDITIONALLY, THE MORE RAPID SALE OF PROPERTIES AT DISCOUNTED RATES WOULD INCREASE THE FLOW OF CASH TO THE LOAN GUARANTY REVOLVING FUND AND DIMINISH THE SHORT-TERM NEED FOR APPROPRIATION.

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STATEMENT OF R. J. VOGEL
CHIEF BENEFITS DIRECTOR
VETERANS ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON HOUSING
AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES
MARCH 5, 1986

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to appear before you this morning to discuss the operation of the Veterans Administration's housing program. I have with me today Robert M. O'Toole, Director, Loan Guaranty Service and Donald L. Ivers, General Counsel.

First Mr. Chairman I would like to bring you up-to-date on the current activity of the Loan Guaranty Program. A period of continued economic stability has permitted VA to reduce the maximum interest rate on guaranteed home loans to 9½ percent on Monday of this week. This is the lowest rate in almost 7 years.

During Calendar Year 1985, the VA guaranteed 201,311 loans, over 71 percent of which were made without a down payment from the veteran purchaser. These no downpayment loans had an average

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purchase price and loan amount of $63,481. For those veterans who obtained loans with a down payment, the purchase price averaged $86,226 with an average loan amount of $75,001. Veterans obtained 8,135 manufactured home loans in Calendar Year 1985. The average purchase price for manufactured homes was $21,866, with an average loan amount of $21,465. The VA home loan program has assisted over 11.6 million veterans to obtain housing since the program was enacted in 1944. Mortgage credit totaling over $247 billion has been allocated to veterans; much of these funds would not have been made available without the benefit of this GI Bill program. Over $86 billion worth of these loans have been repaid in full as of last year.

Mr. Chairman, we are continuing to experience a large number of GI loan defaults. During Calendar Year 1985 defaults averaged 14,513 per month, compared with 13,305 in Calendar Year 1984. Defaults reported appear to be remaining stable at relatively high levels.

As a result of the continued high level of defaults reported, there were 119,717 defaults pending as of December 31, 1985, an increase of 14.2 percent over the 104,794 defaults pending as of December 31, 1984. This, in turn, resulted in an increased number of foreclosures and claims. We paid 25,183 claims in Calendar Year 1984. This increased 4.1 percent, to 26,210 claims paid in Calendar Year 1985.

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Mr. Chairman, VA will soon be submitting the Administration's legislative proposals for the VA home loan program, which include provisions for a negotiated interest rate, an increase in the funding fee, and the authority for direct appropriations into the Loan Guaranty Revolving Fund.

Mr. Chairman we only mention these in passing on the assumption that there will be a later hearing on these issues, and we will not discuss them at this time. We merely wanted to advise you that they would be forthcoming.

Mr. Chairman, your invitation to appear before the subcommittee requested we specifically discuss the housing provisions contained in S. 1887. This bill would require several changes in the VA loan guaranty program in the areas of credit underwriting, default and foreclosure procedures, property management and sales, and appraisals. The bill would also expand the special housing adaptations grant and increase the maximum guaranty amount.

In the area of credit underwriting, the bill would require VA to prescribe regulations establishing credit underwriting standards in accordance with principles generally accepted and used by commercial lending institutions with respect to mortgage loans. The standards would include debt-to-income ratios, criteria for evaluating the reliability and stability of the veteran's income, and procedures for ascertaining the monthly income required to repay the loan. VA would also prescribe by regulation the standards to be used by lenders in obtaining credit information

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and processing loans, which would be in accordance with generally accepted application procedures. Except for the use of debt-to-income ratios and the publication of underwriting standards in regulatory format, VA has already adopted these underwriting standards. The VA does look at factors such as the length and stability of employment, prior use of credit, and the balance that would be available for family support after meeting housing expenses. We believe debt-to-income ratios are acceptable as an additional but not as the exclusive underwriting tool.

The bill would also require lenders to certify that they have complied with the credit underwriting and loan application standards. Civil penalties against lenders who knowingly and willfully make a false certification are prescribed. Due process would require a hearing before such penalty could be imposed. VA does not now adjudicate such matters. In extraordinary cases, the Administrator would be authorized to waive the credit underwriting standards, based on the totality of the circumstances, to a veteran considered to be a satisfactory credit risk.

With the exceptions noted, VA favors enactment of these credit underwriting provisions which are generally consistent with private sector standards. They should assist the individual veteran by making sure that he or she will be able to afford the home before buying it rather than being forced to default on the

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loan due to insufficient income or poor credit experience. These provisions should also help to protect the financial integrity of the Loan Guaranty Revolving Fund.

In the area of default and foreclosure processing, S. 1887 would require the holder of a VA guaranteed loan to notify VA when, in the absence of approved forbearance, the veteran has failed to make two mortgage payments. VA would notify the veteran that foreclosure proceedings would commence within 15 days after 4 payments have not been made. In the absence of forbearance, holders would be required to initiate foreclosure proceedings after the veteran misses four payments. The bill requires VA to conduct a study and report to Congress on the common factors which contribute to mortgage foreclosures. VA would favor enactment of these provisions in the area of default and foreclosure processing with slightly different time frames. The earlier reporting of defaults and quicker foreclosures would greatly increase required reports by lenders to the VA. As a result, lenders would be subject to a far greater paperwork burden; and VA workloads would be greatly increased at a time of serious budget constraints. The earlier reporting would prevent VA from concentrating servicing efforts on cases which are most likely to cure. Therefore, we believe mandatory reporting of defaults should be before the veteran has missed four payments, rather than after the second missed payment, as most defaults self-cure after the second missed payment. We believe that if mandatory foreclosure were required after five rather than four unpaid installments, VA could concentrate servicing efforts on the cases where it would do the most good.

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In the area of appraisals, the bill would require VA to prescribe a standardized examination and uniform qualifications for determining whether to approve appraisers and, in consultation with lenders, to maintain a list of approved appraisers. Selection of appraisers for assignments would be from the list on a rotating basis. Lenders would be furnished a copy of the appraisal and would be permitted to request a second appraisal from an appraiser of their choice on the approved list. In such cases, VA would be required to take both appraisals into consideration in issuing a certificate of reasonable value. Fee schedules for appraisals would be set at levels not below the prevailing market rate. Except for the provision for a second full appraisal, VA favors enactment of these provisions as they have been or are now being adopted by the VA administratively. Current practice is to accept and process appeals on appraisals when parties are dissatisfied with the original valuation decision. The provision for a second appraisal could increase the cost of a real estate transaction and delay the issuance of certificates of reasonable value. We do not believe that this would be cost effective. However, if the committee believes the measure has value we would be pleased to implement it on a limited basis and submit the results of our findings.

S. 1887 contains three provisions concerning property management and disposal. First, VA would be required to furnish information to real estate brokers and other professionals on the availability of VA-owned properties. As we will later discuss, VA presently

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furnishes information on properties to real estate brokers and others in the industry, and is working to improve communications efforts. Second, the bill would establish an 18-month pilot program under which VA would contract with one or more commercial organizations for management and disposal of a representative sample of 10 percent of the VA inventory of properties. We are currently soliciting proposals from the private sector concerning the best means for conducting such a program. VA favors enactment of these provisions. The third item requires establishment for 3 years of a task force to develop and exchange information and to advise the Administrator on ways to improve management and disposition procedures. VA opposes this provision, as we believe a statutory requirement is not the appropriate means of establishing a VA task force.

Mr. Chairman, S. 1887 would raise the maximum guaranty amount for conventionally built housing to $33,500. VA opposes this provision. The present maximum guaranty of $27,500 provides a guaranty of over 40 percent of the 1985 average loan amount of $67,541. This is well above the 25 percent protection typically required by secondary market investors. The present guaranty amount is sufficient to support no down-payment loans of up to $110,000.

The bill would also provide for expansion of the special housing adaptations benefit for veterans with service-connected blindness or service-connected loss or loss of use of both hands who choose to acquire a residence already adapted with special features. The

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present law limits the grant to those veterans who already own or choose to purchase or build a home and subsequently adapt it to their needs. VA favors this provision. The inclusion of veterans who choose to acquire housing with suitable adaptations already in place appears to be a logical extension of the program.

Mr. Chairman, present section 1820(b) of title 38 requires VA to advertise for contracts for repair and maintenance of properties which exceed $1,000. The bill would amend this section to require advertisement for amounts in excess of $25,000 which would conform with the general requirement for other agencies and programs provided in section 5 of title 41, United States Code. VA favors enactment of this provision.

Mr. Chairman, section 307 of the bill would authorize the Administrator to use fee-basis attorneys for foreclosure cases, subject to the general supervision of the Attorney General, without obtaining the prior approval of the Attorney General. This provision is currently being studied and discussed with the Department of Justice.

Section 306 of the bill authorizes the transfer of funds from the Direct Loan Revolving Fund to the Loan Guaranty Revolving Fund when the Administrator determines the funds are not needed for the Direct Loan Revolving Fund, and requires notice to Congress when done. VA has no objection to this provision which would simplify the present procedures for transfers between the two funds.

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Mr. Chairman, I am sure the subcommittee would also be interested in hearing of our current efforts in the area of Property Management. One provision of the Deficit Reduction Act of 1984 is the requirement that at least 25 percent of our properties be sold for cash during Fiscal Years 1985, 1986, and 1987. During FY 1985, we were successful in making 27.5 percent of total property sales for cash. Additionally, our cash sale percentage fiscal year to date is 35.6 percent. Now that we have had a full year of operating under this requirement, we are confident that we will be able to continue to meet, and probably exceed, the 25 percent cash sales requirement for Fiscal Years 1986 and 1987.

Although we have seen continuing high levels of foreclosures completed during the past 2 years (an average of 2,600 per month during 1984 and 1985), we have made encouraging progress with property sales during 1985 and expect to continue this sales trend during 1986 to reduce our inventory and to minimize the demands on the Loan Guaranty Revolving Fund. In March 1984, we reached our highest number of properties in title: 22,316. By the end of the Fiscal Year 1985, we had reduced that figure to 17,611. However, as of the end of January 1986, properties in title had increased again to 18,783, with an additional 14,809 properties pending acquisition by VA due to the continuing high foreclosure level.

Our FY 85 sales were 22 percent higher than FY 84 sales. During FY 85, we sold 28,500 properties. In May 1985, our field stations sold 3,035 properties, the highest monthly sales ever. These sales represented 15 percent of our total property inventory.

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To make our maximum contribution to reduce the need for appropriations, we have been selling properties as quickly and as responsibly as we can. Even though we have an inventory valued at some $787 million because of a steady inflow of new acquisitions, I can assure you that our inventory in general has been turning over, as illustrated by some of the following figures:

- 74 percent of our present properties have been on hand less than one year.

- During FY 84, FY 85, and FY 86 (projected), we sold or will have sold more properties than were on hand at the beginning of each FY. In FY 84, we had 20,669 properties on hand and sold 22,235, and in FY 85 we had 21,585 properties on hand and sold 28,500. We presently have 19,655 properties on hand, and we project that 28,035 will be sold during FY 86.

- During FY 1985, we made property sales of $1.1 billion. This compares with $895 million in FY 1984. We expect to sell $1.2 billion in property by the end of FY 1986.

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The continuing improvements in our Property Management Sales Activity over the past 5 years are reflected in the following figures:

Fiscal Year	Properties Sold
1981	10,671
1982	10,857
1983	18,634
1984	22,235
1985	28,500

We have taken several steps to promote sales. Continued emphasis on these program changes should help us to accelerate the downward trend in our inventory during 1986.

- As a result of a voluntary effort by the National Association of Realtors (NAR) to assist VA in reducing its inventory, a marketing plan has been developed by NAR to be tested in seven selected areas where VA has substantial property inventories. The plan is designed to help VA sell more properties and to sell properties at a faster rate by providing wider exposure of VA properties to the real estate community.

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- VA introduced a two-tier interest rate for the sale of VA-owned properties with vendee-financing. Veterans purchasing for their own occupancy receive vendee financing at the GI loan rate; others pay one-half percent higher. Nonveterans who make a 5 percent down-payment also qualify for the lower rate.

- VA field stations are being encouraged to use paid advertising to promote our property sales program.

- We have placed additional emphasis on the accurate pricing of properties. VA field stations were recently authorized to pay for additional market data reports by management brokers.

- VA will now pay a sales commission on most affiliate sales (sales made to program participants, their employees, and immediate family members).

- Seven auctions have been approved for the balance of FY 1986. Auction sites include Phoenix, Muskogee, Indianapolis, Chicago, Milwaukee, Detroit, and Des Moines.

- VA will pay reasonable discount points and also allow a discount for cash as long as the combination of the two does not exceed 10 percent of the listed price.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or members of the Subcommittee may have.

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PREPARED STATEMENT OF HON. MICHAEL BILIRAKIS

Thank you, Mr. Chairman.

The VA home loan program was created to help those who have served our country fulfill the great American dream of home-ownership. The program serves a clientele which is diverse in many ways but which shares a common bond in their service in the Armed Forces of this nation.

Since the inception of this program, the simple objective has been to assist eligible veterans become homeowners. Veterans are assisted by making it possible for them to compete in the marketplace for credit with persons who were not obliged to forgo the pursuit of gainful occupations by reason of service to our country. All evidence points to the VA loan programs having made mortgage credit available to many veterans to whom loans otherwise would not have been made.

I make these points not to suggest that we should be lenient in qualifying veterans for loans, or that we should provide VA loans to veterans who could not obtain conventional loans because of serious credit deficiencies. We cannot and must not be irresponsible with the taxpayers money, nor should we jeopardize the integrity of this very effective program in this way.

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I make these points simply because I believe it is important to keep the origins and the purpose of the VA home loan program in mind as we consider changes in that program. In the last few years, the foreclosure rate on VA home loans has been a concern for many of us and the debt-to-income ratios proposed in S.1887 are one possible response to those concerns.

Mr. Chairman, I look forward to hearing from our industry representatives and veterans service organizations about their views on this proposal, as well as their ideas on alternative measures that could be taken to ensure that solid underwriting principles guide the VA home loan program. I know all of us in this room share the desire to ensure a strong and viable home loan program for the nation's veterans.

Thank you, Mr. Chairman.

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STATEMENT OF

THE NATIONAL ASSOCIATION OF HOME BUILDERS

before the

COMMITTEE ON VETERANS AFFAIRS

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

on

THE VA HOME LOAN GUARANTY PROGRAM

on

FY'87 BUDGET PROPOSALS AND S.1887

MARCH 5, 1986

Mr. Chairman and Members of the Subcommittee:

My name is David Smith and I am President of the National Association of Home Builders. I am a home builder from McDowell, Virginia, building residential and commercial properties in both Maryland and Virginia. I am appearing today on behalf of the more than 137,000 members of the National Association of Home Builders (NAHB). NAHB is a trade association of the nation's homebuilding industry. Almost 20 percent of our builder members are involved in building housing financed under the Veterans Administration (VA) housing programs.

It is a pleasure to appear before you, Mr. Chairman, and to thank you for leading the effort to avert the shutdown in the VA Home Loan Guaranty Program by raising the loan guaranty ceiling. We were very pleased with the swift action of both the House and the Senate in correcting the error made in estimating loan activity

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levels for this year. We urge that you work closely with the Veterans Administration to recommend a commitment level sufficient to meet loan guaranty demand in FY'87.

I am pleased to present our views on the VA Home Loan Guaranty Program. First I would like to comment on the Administration's FY'87 budget proposals, including our opposition to the increase in the VA user fee and to the elimination of the administratively set VA interest rate. As you requested, we would also like to express our views on S. 1887, legislation passed by the Senate last December. We support the increase in the VA loan guaranty maximum in this legislation but we oppose the mandate to establish debt-to-income ratios. While we support the overall concept of reducing losses in the program, we have serious reservations concerning this change in the underwriting guidelines.

VA HOME LOAN GUARANTY PROGRAM

I would like to take this opportunity to comment on the Veterans Administration Home Loan Guaranty Program in general. VA housing programs have served veterans and their families for over four decades. They have given them not only the opportunity to achieve homeownership but also to put down roots and establish community ties. Since the inception of the program, the VA has guaranteed over 11.6 million loans with a value of around $245 billion.

The VA has done an excellent job in carrying out the housing entitlement programs afforded veterans. NAHB has always supported the VA Home Loan Guaranty Program and believes the VA to be one of

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the best federal agencies in terms of service to the consumer and to the home builder.

ADMINISTRATION'S FY 87 BUDGET PROPOSALS

VA User Fee Increase

The President's budget calls for an increase in the VA user fee from one percent to 3.8 percent by FY'90 -- with an initial increase to 2 percent next year, 2.5 percent in FY'88 and 3 percent in FY'89. Mr. Chairman, we appreciate your efforts and those of the VA Committee in rejecting these increases last year and in your FY'87 report to the Budget Committee last week.

NAHB views this fee, as well as the user fee increases proposed for the Federal Housing Administration (FHA) and the Government National Mortgage Association (GNMA) and the new fees imposed on activities of the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC), as part of a continuing effort by the Administration to restrict essential federal credit programs. We oppose all of these fees because they would increase the cost of mortgage credit to homebuyers. (See Attachment A) Furthermore, higher fees on the VA program could very well result in lower revenues for the government because of reduced program use.

Congress spoke very clearly in 1944 when authorizing the GI Home Loan Program as an entitlement program to enable veterans to obtain mortgage credit. Over time, Congress has acted wisely to increase the entitlement, expand the category of eligible veterans, and extend the period during which the entitlement could be uti-

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lized. There has been a bipartisan commitment over the years to help veterans purchase their own homes; this is certainly not the time to retreat from this policy.

The Proposed Fee is Unrelated to the Cost of the Program

Mr. Chairman, we believe that no appropriation will be necessary to operate the VA Home Loan Guaranty Program next year. Since the program has stabilized and no federal appropriation will be necessary, there is no reason for the fee to be increased. The Administration's proposal to increase the fee, therefore, is simply to raise revenue rather than to maintain solvency in the program. Raising revenue in this manner is no more than a selective tax burden on homebuying veterans.

In addition, with the drop in interest rates -- now at 9.5 percent -- and the substantial increase in the VA ceiling to $18.2 billion, more veterans will be using the program. Collections from the existing one percent fee should be higher than projected, increasing the revenue generated from the program.

Impact of the Fee on Veteran Mortgage Payments

The impact on the homebuying veteran of raising the fee to 3.8 percent would be substantial. If a veteran took out a loan for $67,016 (the average loan amount for a VA home at the end of 1985), at 9.5 percent, for 30 years, he would have an up-front cash payment of $670.16 with the one percent fee. If the fee is increased to 3.8 percent, the up-front cash payment increases by $1,876.61, bringing the total to $2,546.61. Many veterans would not be able to raise that much cash at the time they planned to purchase a

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home. If the veteran chooses to amortize the fee, his monthly payment would increase by $15.78 a month from $569.14 a month at one percent to $584.92 a month at 3.8 percent; over the life of the loan the veteran would pay an extra $5,700 because of the fee increase.

The Increased Fee Will Cause Losses to the Fund

The increased fee will cause sizeable losses in the Loan Guaranty Revolving Fund. First, loan originations will decrease as veterans decline to use the program, offsetting projected revenue. The Congressional Budget Office has estimated that for each one percent increase in the VA fee, new loan originations would decrease by approximately 5 percent.

Second, larger loan amounts that result when higher fees are amortized will lead to higher default rates. The severe economic recession of the early eighties, combined with the end of the rapid appreciation in home prices that had been associated with inflation, has resulted in unusually high foreclosure and loss rates throughout the mortgage sector. Analysis of the cause of these foreclosures and the types of loans most likely to default shows clearly that low downpayments and slim or nonexistent equity positions are the most dangerous aspects in a disinflationary environment.

Negotiated Rate

Mr. Chairman, the Administration intends to once again seek authority for negotiated interest rates on VA guaranteed mortgages. This would eliminate the administratively set VA interest rate and allow for a negotiated rate between the buyer and the seller. As

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you are aware, the administratively set rate was abolished in the 1983 Housing Act for loans insured by the Federal Housing Administration (FHA).

NAHB supports the dual system of a floating FHA rate and an administratively established VA rate, and wants this system to be continued in the future. This will allow for the operation of the FHA floating rate to be tested over time, including times of high interest rate volatility.

I would also like to take this opportunity to commend the VA for the successful administration of the VA rate last year. The sensitivity to market conditions made the VA prevailing rate a true "national mortgage rate benchmark." If the VA's authority to set a maximum interest rate ceiling were eliminated, there would be no way to reestablish a benchmark rate, which becomes even more important in a volatile rate environment.

LEGISLATIVE PROPOSALS

I appreciate the opportunity to comment on S. 1887, VA legislation passed last year by the Senate. Title III of this bill provides for changes in underwriting guidelines, appraisal policies and property disposal plans. We strongly oppose the establishment of debt-to-income ratios mandated in this law, and we feel that lenders should be allowed to select qualified appraisers from a list chosen by the VA. We support the provisions that raise the loan guaranty maximum from $27,500 to $33,500, provide for apprenticeship on-the-job training, and require a detailed justification for the consolidating of Veterans Administration offices.

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Debt-To-Income Ratios

We have serious concerns about provisions in S. 1887 which mandate the establishment of debt-to-income ratios. We feel that the "residual" method of credit underwriting now used by VA is a flexible and realistic standard and should be continued. This system focuses on the balance of income available for family support after the prospective mortgage payment and other known obligations have been taken into account. It takes into account geographic variation in costs, as well as differences in individual circumstances.

There is no evidence that the residual system of underwriting is itself a problem. What is needed is the use of current, realistic data on costs, careful verification of borrower information and consistent application of the underwriting guidelines already in place. By establishing debt-to-income ratios, a number of creditworthy borrowers may be denied their VA home loan guaranty entitlement. Most of these would be first-time homebuyers.

We strongly urge that the provision for the establishment of debt-to-income ratios be deleted. If, however, debt-to-income ratios are established, we would hope that guidelines similar to those administered by the Department of Housing and Urban Development (HUD) be adopted. Not only do we feel that these guidelines more accurately reflect the veteran's ability to afford the home, but it will bring both the VA Home Loan Guaranty Program and the Federal Housing Administration (FHA) insurance program into closer conformity.

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Appraisers

We agree with the thrust of S. 1887 which gives the lender greater determination in selecting the appraiser to determine the reasonable value of the property. We feel, however, that the legislation as presently written will be more costly as this provision essentially provides for two appraisals. To reduce this problem, we feel that the lender should choose from a list of appraisers already approved by the Veterans Administration.

Loan Guaranty Maximum

Attachments B and C to my testimony show the need to increase the loan guaranty maximum. Since 1975, the sales price of new single family homes has increased at a much greater rate than the maximum loan guaranty. The average sales price of a new home went from $42,600 in 1975 to $100,600 in 1985, a 136 percent increase. The loan guaranty maximum increased only 57 percent in the same amount of time -- from $17,500 to $27,500. Comparing the 1985 new home sales price of $100,600 to the 1980 figure of $76,400, the last time the loan guaranty was raised, new home prices have increased over 31 percent (Attachment B).

The average sales price for new homes built with a VA loan guaranty increased from $34,252 in 1975 to $79,970 in 1985, an increase of 133 percent -- equivalent to the percent increase for new home sales in general. Average loan amounts for new housing have climbed by 131 percent during this same period (Attachment C).

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Given the substantial increases in the cost of housing since the last time the loan guaranty maximum was raised, we believe that an increase in the loan guaranty amount is well justified.

You may want to consider the establishment of a mechanism that would automatically trigger an increase in the loan guaranty maximum as home prices rise. We would also like to see a formula established to provide differentials for high cost housing areas, similar to FHA.

Apprenticeship/On-The-Job Training Programs

Title II of S. 1887, the Educational Assistance Program Improvements section, contains provisions that recognize apprenticeship or other on-the-job training programs as educational programs eligible for assistance benefits under the new GI Bill. An identical provision is included in H.R. 3747 which has been favorably reported by this Committee's Subcommittee on Education, Training and Employment.

NAHB supports this legislation since apprenticeship and on-the-job training programs are not only cost effective means of providing job opportunities for veterans but also train them in skills and crafts which are vital to the homebuilding industry. We are pleased that with this legislation, challenging career opportunities for veterans will be obtainable, not only through academic college programs, but also through apprenticeship and on-the-job training programs.

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Consolidation of VA Offices

Title V of S. 1887 calls for clarification of the requirement, established in 1981, for the VA to submit a detailed justification plan for any VA administrative reorganization. We have been opposed to the attempts by the Administration to consolidate the VA's 59 regional offices, and we would be supportive of a detailed clarification and justification if the VA again attempts to consolidate these offices in the future. The Committee's bill (H.R. 2343) passed by the House of Representatives last year would require the VA to maintain a regional office in each state.

Adjustable Rate Mortgages

Regarding an issue not dealt with in S. 1887, we support the concept of an adjustable rate mortgage (ARM) for veterans under the Home Loan Guaranty Program.

Adjustable rate mortgages have proven to be a valuable tool in the market place and would provide an additional option to the veteran homebuyer similar to those offered by FHA and the conventional market.

CONCLUSION

In closing, I would like to emphasize our opposition to the increase in the VA user fee and the establishment of debt-to-income ratios for veteran homebuyers. It is essential that the VA remain true to its basic responsibility of providing credit assistance to veterans for the purchase of housing and to make maximum use of

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the loan guaranty program. The loan guaranty entitlement should not be denied our veterans and service personnel who have so ably served our country.

I would be pleased to respond to any questions you might have.

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ATTACHMENT A

January 15, 1986
Dallas, Texas

NAHB Resolution

Title: The Future of FHA and VA
Original Sponsor: Home Builders Association of Greater Chicago

WHEREAS, the Federal Housing Administration and the Veterans Administration programs, in an era of major private mortgage insurance problems and conventional finance program limitations, are more critical for more homebuyers in more markets than ever before;

WHEREAS, some Administration budgetary proposals could cripple FHA and VA programs as well as severely restrict the operations of the Government National Mortgage Association, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation; and

WHEREAS, the Administration intends to study the possibility of the sale of FHA to the private sector and is considering cutbacks in the activities of FHA, VA, GNMA and other housing credit agencies,

NOW, THEREFORE, BE IT RESOLVED that Congress be urged:

1. To deny the increase of FHA and VA user fees as long as current fees adequately maintain these programs, which already have produced over $3 billion in surplus federal revenues;

2. To refuse any gross income limitation on program access because any such limitations would be totally contradictory to the fundamental FHA and VA purpose of promoting general American homeownership;

3. To reject any increases in the GNMA, FNMA and FHLMC mortgage-backed securities fees because these securities are the most effective way to allow housing to compete equally in the national capital markets and such fees already pay their full way; and

4. To oppose the development of any co-insurance concepts, restrictive new GNMA volume limitations, or any effort that would diminish the effectiveness of the national mortgage delivery system, and

BE IT FURTHER RESOLVED that the Administration be strongly urged to avoid any steps toward privatization of FHA or VA which would limit the ability of American families to obtain home mortgages, damage the nation-wide mortgage insurance capability so necessary to equitably access national capital markets, or threaten in any other way the path to homeownership which FHA and VA programs have so effectively and economically provided.

BOARD OF DIRECTORS ACTION: Approved

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ATTACHMENT B

AVERAGE SALES PRICE OF NEW HOMES SOLD/
LOAN GUARANTY MAXIMUM COMPARED TO 1975

	New Single Family Homes		VA Loans	
	Average Sales Price/New Homes	% Increase Over 1975	Loan Guaranty Maximum	% Increase Over 1975
1975	$42,600	N/A	$17,500	N/A
1976	$48,000	12.7	$17,500	0
1977	$54,200	27.2	$17,500	0
1978	$62,500	46.7	$25,000	42.9
1979	$71,800	68.5	$25,000	42.9
1980	$76,400	79.3	$27,500	57.1
1981	$83,000	94.8	$27,500	57.1
1982	$83,900	96.9	$27,500	57.1
1983	$89,800	110.8	$27,500	57.1
1984	$97,600	129.1	$27,500	57.1
1985	$100,600	136.2	$27,500	57.1

N/A = Not Applicable

Source: U.S. Department of Commerce Bureau of the Census, Series C-25; Compiled by NAHB

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ATTACHMENT C

SALES PRICES AND LOAN AMOUNTS ON PRIMARY LOANS *
VA PROGRAMS 1975 - 1985

	1975	1985	% INCREASE
VA PROGRAMS			
Average Sales Price (new housing)	$34,252	$79,970	133.5%
Average Loan Amount (all housing)	$29,552	$67,016	126.8%
Average Loan Amount (new housing)	$32,883	$75,973	131.0%
Average Loan Amount (existing housing)	$28,574	$63,883	123.6%

* Excludes refinancing loans, alterations and repair.

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TESTIMONY

NATIONAL ASSOCIATION OF REALTORS®

HOUSE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

COMMITTEE ON VETERANS AFFAIRS

MARCH 5, 1986

NORMAN J. GOLDBERG

Good Morning, Mr. Chairman, my name is Norman J. Goldberg, and I am a REALTOR® from South Orange, New Jersey. I am also Chair of the NATIONAL ASSOCIATION OF REALTORS® Real Estate Finance Committee. On behalf of the more than 700,000 members of the NATIONAL ASSOCIATION OF REALTORS®, I want to thank you and the members of your Subcommittee for the opportunity to present our views on the Veterans Administration (VA) Home Loan Guaranty Program.

As I understand it, Mr. Chairman you have asked that witnesses focus their attention on the housing provisions of S. 1887, Senate legislation entitled the Veteran's Compensation and Benefits Improvements Act of 1985.

I and members of our Government Mortgage Programs Subcommittee have reviewed those provisions and wish to offer the following comments.

S. 1887, VETERANS' COMPENSATION AND BENEFITS IMPROVEMENTS ACT OF 1985

- Credit Underwriting and Processing

The first section of the bill's housing provisions, Section 302, requires the VA Administrator to establish tighter credit underwriting standards to be applied to all VA loan guaranty applications, including specific debt-to-income ratios. Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® supports the establishment of tighter credit underwriting standards for VA loans. We believe that VA loan applications should be subject to tighter underwriting criteria, just as conventional and FHA loan applications are.

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While the ASSOCIATION supports the continued availability of the Home Loan Guaranty Program as a well-deserved veteran benefit, we must agree with the Senate Committee's opinion that "veterans are not properly served if they are permitted to purchase homes with loans which they cannot afford and which are...likely to end in foreclosures."

We similarly support the bill's provision which also requires the VA Administrator to include criteria for evaluating the reliability and stability of the veteran applicant's income.

Although we feel that the establishment of tighter credit underwriting standards is a positive step toward preventing future VA foreclosures, we view the bill's requirement that these standards reflect those of "commercial lending institutions...with comparable security arrangements" inappropriate. Rather than requiring standards of the conventional market, we recommend that VA's underwriting criteria reflect those of the Federal Housing Administration (FHA), a comparable federal housing program.

This section of the bill also contains a provision which requires lenders to certify that the VA loan was processed in accordance with VA's mandated underwriting standards and that the veteran meets those criteria. Further, if a lender knowingly and willfully falsifies this certification, the lender will be liable for penalty. While we believe that the majority of lenders who process loans under the VA Home Loan Guaranty Program do so in a competent and reliable fashion, we support this provision as a reasonable approach to promoting lender responsibility in properly underwriting VA loans.

Finally, we agree with the bill's provision which grants the VA necessary flexibility in certain areas by allowing the VA Administrator or designee to waive the underwriting standards in "extraordinary situations."

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• Loan Guaranty Amount

Since 1980, the VA loan guaranty amount has been $27,500. The loan guaranty amount is the maximum amount that may be paid by the VA as a guaranty to the holder of a VA home loan. Although there has been no increase in the loan guaranty limit during the course of the past 6 years, the median housing price has risen by approximately 22.3 percent.

Currently, there is a growing number of areas nationwide where the Veterans Home Loan Guaranty Program is being outpriced by housing costs. A glaring example of this problem is in California where the largest population of veterans, almost 3 million, reside and where the housing costs are 55-60 percent above the nation's average. The Veterans Administration has calculated that the $27,500 mortgage guaranty loan limit will support a principal loan amount of $110,000. In areas such as Anaheim, Los Angeles, San Francisco and San Jose, California the median cost of an existing single-family home appreciably exceeds this $110,000 mark.

VA has estimated that the median loan amount for calendar year 1985 is approximately $66,000 - $67,000. According to our data, the median sale price for existing single family homes exceeds this loan amount in a number of densely populated Veteran states and metropolitan areas nationwide such as Boston, New York, Philadelphia and Washington, D.C., as well as, a number of areas within the states of Arizona, California, Colorado, Texas and Florida.

The NATIONAL ASSOCIATION OF REALTORS® supports the increase of the loan guaranty amount to $33,500 contained in S.1887. We feel the time has come to change the limit and provide for an increase that is more realistic with today's housing cost trends.

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• Default Notification and Foreclosure Procedures

This section of the bill revises the VA's existing default and foreclosure precedures, and, in general, the NATIONAL ASSOCIATION OF REALTORS® supports these improvements.

We are especially mindful of the need to address default cases in a prompt mannner, such as is mandated in the bill's provision requiring the VA to notify veterans who fail to make two full monthly payments. However, it is our hope that the VA will make every effort to cure the loan problems before issuing a default.

The NATIONAL ASSOCIATION OF REALTORS® supports the remaining provisions in this section which: (1) requires the VA to institute foreclosure proceedings in cases where a veteran has failed to make four monthly payments; (2) relieves the VA of liability for accrued interest between the date of default and foreclosure if the lender fails to institute foreclosure proceedings as required by VA; and (3) requires the VA to submit a report to Congress on the common factors which contribute to VA loan foreclosures.

With respect to the latter provision, we strongly recommend that such a study be prepared. It is critical to identify the reasons for VA foreclosures in order to seek appropriate preventive solutions.

• Appraisals

The NATIONAL ASSOCIATION OF REALTORS® agrees with the efforts to establish within the VA appraisal process uniformity of guidelines and qualifications for its appraisers.

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Last year's investigation by the VA Inspector General in this area revealed a variety of problems along with both current and potential abuses. In addition, a REALTOR® Task Force which met last year to review the VA program in its entirety, and specifically pointed out the need for the VA to provide more standardized appraisal guidelines and better certification techniques for qualifying a VA appraiser.

In an effort to maximize conformity within the system, we recommend that the changes taking place in the appraisal area by other government agencies and government-related programs be considered for review, as well as, those stipulated in the Senate bill S.1887.

- Furnishing Information to Real Estate Professionals

S.1887 includes a provision which would require the VA Administrator to furnish information regarding the availability of VA acquired property and the VA's procedures for disposing of such property to real estate brokers and other real estate sales professionals.

The NATIONAL ASSOCIATION OF REALTORS® convened a second Task Force of its members last year to review the disposition and management progams for both FHA and VA acquired properties.

It was concluded that if these properties were inventoried for as short a time period as possible, thereby, mitigating the management costs and maximizing the properties' resale value, then the inventory represented a valuable, potentially profitable, asset for both agencies. The Task Force agreed that the key was to sell the properties in as expeditious a manner as possible.

Given the broad-based exposure of the local board structure of the

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REALTOR® organization, it was concluded that the most effective way to handle these properties was to market them to the broadest spectrum of real estate professionals. (SEE PROPERTY MANAGEMENT AND DISPOSITION PILOT PROGRAM FOR FURTHER DETAIL).

The NATIONAL ASSOCIATION OF REALTORS® supports this effort, recognizing that both parties have only to gain from increased communication and dissemination of property information.

- Task Force on Management and Disposition of Property

The NATIONAL ASSOCIATION OF REALTORS® supports the provision in S.1887 to organize an industry-wide Task Force to work with the VA for three years to review the current structure of VA's management and disposal program.

More importantly, the NATIONAL ASSOCIATION OF REALTORS® feels that such an effort will finally focus much needed attention and support on the VA Home Loan Guaranty Program.

- Property Management and Disposition Pilot Program

S. 1887 calls for the establishment of a pilot program to determine the effectiveness of contracting with a commercial organization for the management and disposal of VA's inventoried properties. The pilot program would be conducted for 18 months, and would encompass 10 percent of the VA's total inventory.

As you may know, the NATIONAL ASSOCIATION OF REALTORS® has been working with VA and FHA for over a year to develop a cooperative effort by which REALTORS® and other real estate professionals across the country can assist

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these agencies to dispose of their properties. 1985 REALTOR® President, David D. Roberts, appointed a special task force last March to investigate alternative methods of disposing of FHA and VA inventoried properties. The Task Force and Association staff met with FHA staff and VA staff on several occasions to solicit information and input on the development of a practical, workable plan.

At our Annual Convention last November, the Board of Directors approved the Task Force's proposed plan, and directed NATIONAL ASSOCIATION OF REALTORS® staff to select appropriate demonstration sites for the implementation of the property disposition program. The program involves the establishment of local/regional REALTOR® ADVISORY COUNCILS which will meet and work with FHA and VA to develop a method by which REALTORS® can assist both agencies to sell their inventoried properties, depending on the preferences, needs, and resources of the local board and local agency offices.

In the case of VA, the purposes of the REALTOR®/VA ADVISORY COUNCILS are to:

- establish and maintain communications with the VA Regional Office (VARO) Director and Loan Guaranty Officer (LGO);
- visit VA's Property Management Section to determine how properties are:
  - . Acquired
  - . Repaired
  - . Priced
  - . Managed
  - . Listed
  - . Sold;

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- recommend changes to the Director and the LGO to improve VARO's property sales methods and procedures;
- examine existing computer capability and determine if maximum usage is being achieved;
- provide additional market sales data to assist the property management staff to better reflect current market value in pricing properties;
- meet regularly (at least semi-annually) with the Director and Loan Guaranty Staff;
- educate the real estate community about VA's property sales program by encouraging local and regional boards to:
  - Invite VA personnel to speak and/or participate at their regular meetings and educational seminars.
  - Invite VA personnel to speak and/or participate in the REALTORS® annual state conventions.

As part of the ADVISORY COUNCIL'S review of the VARO's Property Management Section, VA and the COUNCIL will discuss ways in which real estate professionals can assist the VA in the sale of its properties by utilizing the marketing talent of real estate licensees. Information regarding VA's properties will be available to all real estate licensees, not just REALTOR® members.

Depending on the needs and resources of the local board of REALTORS® and the VARO, a plan will be developed to provide wider exposure of VA properties to the local real estate community. Two possible methods include:

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- Computer based "Bulletin Boards": Establish computer linkage, where possible, between VA, local REALTOR® boards and their members to speed up the distribution of VA sales listings.
- Printed Listings: The VARO will mail its sales listings to all members of the local REALTOR® boards on a trial basis for several months. Any broker who desires will be added to the RO's permanent mailing list.

A key part of the program involves its monitoring and evaluation. The NATIONAL ASSOCIATION OF REALTORS® will maintain bi-monthly contact with the REALTOR®/VA ADVISORY COUNCILS to determine the status of the program, facilitate resolution of any problems or barriers to the program's operation, and provide professional support and assistance, as needed.

The NATIONAL ASSOCIATION OF REALTORS® will also continue to maintain its liaison and communications with the VA Loan Guaranty Service in Washington, D.C. to solicit their input on the program's performance, facilitate the resolution of any problems, and offer assistance, as needed.

Seven program sites have been selected to implement the program. They include the following:

- CHICAGO metropolitan area;
- MIAMI/FORT LAUDERDALE/WEST PALM BEACH;
- WASHINGTON, D.C. metropolitan area;
- INDIANAPOLIS metropolitan area;
- DES MOINES metropolitan area;
- DALLAS-FORT WORTH metropolitan area; and
- NORTHERN CALIFORNIA AREA (SAN JOSE, SACRAMENTO, OAKLAND, FRESNO).

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In addition to the seven official demonstration sites, we have also encouraged other local boards who are interested to contact our staff. Since our press release (see attached copy) and article in REALTOR NEWS was issued three weeks ago, the response from other local boards of REALTORS® who want to implement the program on a volunteer basis has been overwhelming.

The NATIONAL ASSOCIATION OF REALTORS® is excited and enthusiastic about this cooperative effort to aid VA to dispose of its properties. We believe that increasing the involvement of local real estate professionals who are interested in and committed to the property disposition sales program can only increase the exposure and resulting sales of VA's inventoried homes.

Because we are confident in the ability of this program to increase VA's property sales, we do not believe that the Senate bill's proposed pilot program is necessary. However, if the Congress determines that such a test is needed, we strongly believe that our program will perform better and achieve its goals in a satisfactory manner. We recommend that the way to exposing and selling VA properties is through wider real estate professional involvement, not less.

PROPOSED "USER FEES" ON THE VA HOME LOAN GUARANTY PROGRAM

Although the subject of VA "user fees" is not included in the Senate legislation, we feel the need to reiterate the NATIONAL ASSOCIATION OF REALTORS®' policy position on this issue.

At our recent Mid-Winter Business Meetings this past January, the Association's Board of Directors adopted the following action:

"That the NATIONAL ASSOCIATION OF REALTORS® place HOMEOWNERSHIP as a top priorty of the ASSOCIATION and continue to strongly and agressively

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oppose any attempt to weaken, privatize or impose any additional cost of user fees on federal housing programs such as FHA, VA, FmHA, FNMA, FHLMC, GNMA."

In keeping with this policy, we oppose the current Administration proposal to increase the VA loan funding fee from the existing 1 percent to 3.8 percent.

CONCLUSION

Once again, thank you, Mr. Chairman, for providing us the time to voice our opinions regarding the proposed Senate legislation. I will be happy to answer any questions.

Thank you.

Attachment

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news

NATIONAL ASSOCIATION OF REALTORS®
The Nation's Largest Trade Association

For Further Information Contact:

Liz Johnson 202/383-1043

REALTORS TO WORK WITH FHA AND VA TO SELL LOCAL FORECLOSED PROPERTIES

WASHINGTON (Feb. 14, 1986)--A new plan developed by the National Association of Realtors to help the Federal Housing Administration and the Veterans Administration sell their repossessed properties will be demonstrated in seven areas this year, the National Association has announced.

"The model disposition program developed by NAR is designed to make it easier for real estate practitioners to work with local FHA and VA offices to increase and expedite sales of properties the agencies have acquired through foreclosure," said Clark E. Wallace, president of the association.

The plan involves the establishment of Realtor Advisory Councils to work with the agencies to develop a property disposition method in keeping with the needs and resources of each local board of Realtors and agency office, Wallace said.

In most instances, one VA field office serves a whole state, but the FHA has several offices serving areas within each state. NAR demonstration areas were designed to accommodate the two different systems. Following are the demonstration sites:

Chicago metropolitan area (FHA and VA);

Miami/Fort Lauderdale/West Palm Beach area (VA);

Washington, D.C., metropolitan area (FHA and VA);

Indianapolis, Ind., metropolitan area (FHA and VA);

Des Moines, Iowa, metropolitan area (FHA and VA);

Dallas-Fort Worth metropolitan area (FHA and VA), and

Northern California area, including San Jose, Sacramento, Oakland (VA) and Fresno (FHA).

-more-

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Property Disposition--add one

Through the model program, FHA and VA property listings will be distributed in cooperation with local boards of Realtors to all licensed real estate agents who request the listings, Wallace explained.

Under the NAR model program, local boards of Realtors with computer systems can receive property data from FHA and VA offices with computer capability, then disseminate the information to their members and other licensed real estate agents.

In areas lacking computer capability, FHA and VA could print listing bulletins and make them available to local boards and other interested real estate practitioners.

"A key component of the model plan is the establishment of the local advisory councils. The Realtors and agency representatives on the councils will be responsible for implementing the property disposition program and for resolving problems if they arise," Wallace said.

He noted that the model disposition program may be used in areas that have not been chosen as demonstration sites if the local board of Realtors, FHA and VA are interested.

James C. Histler, deputy assistant secretary for single-family housing in the Department of Housing and Urban Development said FHA may have as many as 45,000 homes to dispose of this year.

Histler said FHA now has about 18,000 foreclosed properties to sell.

Robert H. O'Toole, director of the VA Loan Guaranty Service, said the agency sold about 28,500 foreclosed properties in fiscal year 1985 and wound up with about 18,700 on hand at the end of the fiscal year Sept. 30.

The National Association of Realtors, the nation's largest trade association, represents more than 700,000 members involved in all aspects of the real estate industry.

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REALTOR®

NATIONAL ASSOCIATION OF REALTORS®

Clark E. Wallace, President

Albert E. Abrahams, Senior Vice President, Government Affairs
Gil Thurm, Vice President & Legislative Counsel, Government Affairs

Government Affairs Division
777 14th Street, N.W., Washington, D.C. 20005-3271
Telephone 202 383-1000

May 19, 1986

Ms. Gloria Royce
House Veterans' Affairs Subcommittee on
Housing and Memorial Affairs
Cannon House Office Building, Room 337
Washington, D.C. 20515

Dear Gloria:

The following information was prepared in response to a question (see page 61 of transcript) from Representative Chistopher Smith to Norm Goldberg, Chair of Real Estate Finance Committee and witness for NATIONAL ASSOCIATION OF REALTORS® on March 5, 1986 before the House Veterans Affairs Subcommittee on Housing & Memorial Affairs:

The VA Home Loan Guaranty Program is currently authorized to guarantee residential mortgages for 60 percent of their principal value up to a maximum of $27,500. This guaranty is sufficient to support a principal loan amount of $110,000. The NATIONAL ASSOCIATION OF REALTORS® is concerned that there is a growing number of areas nationwide where the Veteran's Home Loan Guaranty Program is being outpriced by housing costs.

At present, 75-80 percent of the housing market is comprised of "existing homes." According to statistics compiled during March, 1986 by the Economics & Research Division of the NATIONAL ASSOCIATION OF REALTORS®, almost 30 percent of this nation's "existing homes" market consists of homes above $110,000.

Based upon a regional distribution (see below for State Distribution), the Northeast region which houses over 22 percent of the VA population has a housing market where 47 percent of its "existing homes" are above $110,000. Likewise, in the Western region where 20 percent of the veteran population resides, more than 43 percent of its housing inventory is priced over $110,000. In the Southern region which has 33 percent of the veteran population, close to 30 percent of the housing market is over $110,000; and in the Midwest where 25 percent of the veteran population live, more than 11 percent of the housing stock is over $110,000.

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In highly populated metropolitan areas such as New York/New Jersey and Los Angelos and San Francisco, California which involve almost a fifth of the veteran population, the median sales price for existing single-family homes in 1985 was approximately $134,000, $120,000 and $130,000 respectively. The REALTORS® feel that the time has come to change the limit to provide for an increase in the loan guaranty amount that is more realistic with today's housing cost trends.

**Regional Distribution of STATES: (Based on the four standard Census regions of the Country)

NORTHEAST: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermount.
WEST: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming.
SOUTH: Alabama, Arkansas, Delaware, Dist. of Columbia, Florida, Georgia, Kentucky, Louisana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia and West Virginia.
MIDWEST: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin.

Thank you for your time and patience.

Sincerely yours,

MARLISA SENCHAK

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1125 Fifteenth Street, N.W.
Washington, D.C. 20005
202-861-6500

Mortgage Bankers Association of America

STATEMENT OF

RONNIE J. WYNN

PRESIDENT
COLONIAL MORTGAGE COMPANY
MONTGOMERY, ALABAMA

on behalf
of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

Hearings on

S 1887 and
The Veterans Administration Home Loan Guaranty Program

March 5, 1986

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Mr. Chairman and members of the Subcommittee, my name is Ronnie J. Wynn. I am President of Colonial Mortgage Company of Montgomery, Alabama. I am also Chairman of the Legislative Committee of the Mortgage Bankers Association of America (MBA).* Accompanying me are Burton C. Wood, MBA's Legislative Counsel, and William E. Cumberland, MBA's General Counsel.

MBA appreciates the opportunity to appear before you today to testify on the Veterans Administration (VA) home loan guaranty program. MBA believes that the legislative proposals contained in S 1887, which are the focus of this hearing, contain positive suggestions for the improvement of the operation of the program. We also have some other suggestions to improve the program.

Before addressing these issues, Mr. Chairman, I would like to take this opportunity to thank you for introducing and achieving passage of the legislation that replaces the Gramm-Rudman-Hollings ceiling on the VA home loan program during 1986. As we understand it, the VA has estimated that the guaranty capacity set forth in your bill,

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*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of housing and other real estate finance. MBA's membership comprises mortgage originators, mortgage investors, and a wide variety of mortgage industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, selling, and servicing real estate investment portfolios. Members of MBA include:

- o Mortgage Banking Companies
- o Commercial Banks
- o Mutual Savings Banks
- o Savings and Loan Associations
- o Mortgage Insurance Companies
- o Life Insurance Companies
- o Mortgage Brokers
- o Title Companies
- o State Housing Agencies
- o Investment Bankers
- o Real Estate Investment Trusts

MBA headquarters is located at 1125 15th Street, N.W., Washington, D.C. 20005; telephone: (202) 861-6500.

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HR 4130, will carry the program through the remainder of the year. Your prompt and effective action saved the program for the year, and those of us who are involved in the vital goal of assisting our veterans achieve homeownership certainly thank you for it.

Under current circumstances, any review of the VA home loan guaranty program must begin with a consideration and a rejection of the increase in the guaranty fee proposed by the Administration in its FY 1987 budget. The President's 1987 Budget proposes to increase the VA guaranty fee by 1 percent in 1987, and then go on to increase the fee to 3.8 percent by 1990.

During his campaign, and as recently as last week, President Reagan said that he would not increase taxes. With this proposed fee increase, he contradicts himself. The proposed fee is not only a tax on veterans seeking to own a home, but is contrary to the whole purpose of the VA home loan program. The proposed fee is more than a tax, it is an indirect effort to undercut the decision of Congress, reviewed and revised as recently as a year ago, to recognize veterans' service by helping veterans to own their homes. If additional taxes are needed, they should be broad-based and not targeted to veterans. MBA urges that the Administration's proposed increase in the VA guaranty fee be rejected.

MBA believes that the VA home loan guaranty program is an excellent one and that the VA has operated the program well. We note with pleasure the current VA projection that it will not need appropriated funds to carry on the home loan guaranty program in 1987, after appropriations were provided in 1986. The program is not perfect, and it can be improved. But the performance of the program is consistent with the mortgage markets generally, and this suggests that the operation is being well conducted.

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In 1985, MBA created a special task force of mortgage bankers who are active in making privately financed mortgage loans under the VA home loan guaranty program. This task force worked jointly with the VA to assist the VA in adapting the home loan guaranty program to current economic conditions of a relatively low rate of inflation of sales prices for homes.

In addition to increasing the maximum guaranty to $33,500, which we support, several of the provisions of Title III of S 1887 would statutorily mandate changes in the home loan guaranty program similar to the changes that MBA's task force recommended that the VA adopt administratively. MBA believes that the ideas are good ones, including a move to more traditional loan underwriting standards, tighter response to default situations, and more lender control of appraisals, but MBA is concerned that a statutory mandate may be too inflexible a method of implementing the change.

Proper origination and guaranteeing of mortgage loans is a subtle and difficult activity. If Congress determines, by the passage of S 1887, to mandate certain aspects of the guaranty process, all involved should be aware that when the law is tried in practice, certain unforseen effects may result, and remedial and prompt amendments may be necessary.

With regard to Title III of S 1887, we believe certain specific changes should be made: Lenders should be subject to penalty fines only when they make certifications knowing them to be false; the default notice timetable should begin at 90, not 60, days' delinquency; a broader "safety valve" should be allowed for the automatic foreclosure procedure; and finally, lenders should be allowed a greater choice in selecting appraisers.

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There are some additional adjustments that we believe should be made to the home loan guaranty program. The VA should be authorized to guarantee adjustable rate mortgages (ARMs) with such limits, if any, as the Administrator deems necessary. The program should accept mortgage interest rates that are negotiated between borrower and lender, and not limited to interest rates that are administratively set. And, with respect to vendee loans, the Administrator should be freed to make the best deal possible when selling properties acquired by the VA.

Mortgage bankers are proud of the fact that they have participated in making a program work that has helped 11.6 million American veterans become homeowners. We appreciate your concern, Mr. Chairman and members of the Subcommittee, that the program continue to be operated in the most effective way possible.

THE PROPOSED INCREASE IN THE FUNDING FEE SHOULD BE REJECTED

The President's Budget for FY 1987 calls for an additional 1 percent "fee" to be added to the 1 percent funding fee currently being collected from veterans. This additional "fee" would be the first step in a scheme to increase the total loan guaranty fees to 3.8 percent of the veteran's mortgage by 1990, as the President's FY 1987 Budget document acknowledges (Appendix, p. I-Y22).

Unlike last year, the President's Budget makes no attempt to link the proposed increase in fee imposed on homebuying veterans with the healthier operation of the VA home loan guaranty program. Even without the proposed additional fee, using existing fees and funding, the FY 1987 Budget seeks no appropriations for the VA Home Loan Guaranty

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Revolving Fund, which is used to finance the guaranty program. What is being proposed is a new tax on veterans wishing to buy a home or otherwise use the VA guaranty program.

The President's FY 1987 Budget (Appendix, page I-Y22) indicates that the proposed new tax would collect $131.8 million from veterans using the program to purchase or to refinance their homes. MBA's estimate is higher, with $140 million being collected in FY 1987. But this FY 1987 tax on homebuying veterans is only the first step. MBA estimates that by FY 1989 veterans would be asked to pay this special tax to the extent of $391 million.

If Increased Taxes Are Needed to Reduce the Deficit, They Should Not Be Targeted to Homebuying Veterans

It may well be that new taxes will be necessary to allow the Government to reduce the Federal budget deficit in FY 1987, but those taxes should be broad-based and should be decided upon in an open discussion of tax policy. The 3.8 percent user fee proposal is a back-door levy on homebuying veterans, thinly disguised as a cost-related user fee intended to strengthen the program.

The 3.8 percent fee proposed by the Administration would be a significant tax increase for the homebuying veteran. For example, the VA has estimated that the fee would add $26 to each monthly payment required to carry the average VA mortgage. MBA has calculated that the amount of the average mortgage guaranteed by the VA in 1985 was $66,279, based on information furnished by the VA. A veteran whose income exactly qualifies for the $66,279 mortgage would be earning approximately $20,000 according to typical mortgage underwriting criteria. Internal Revenue Service statistics (Individual Income Tax Returns, 1982 Statistics of Income) show that taxpayers earning $20,000 paid,

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on average, a Federal income tax of $2,329 in 1982 (the latest year for which figures are available). The proposed fee would increase that average veteran's tax by $306, or 13 percent per year if, as will likely happen in most cases, the fee is added to the mortgage. If the veteran pays the fee in full in cash, the tax would be $1,856 in the year of the guaranty—an 80 percent increase in the average tax. The President may promise no additional taxes but, for the veteran obtaining a VA home loan guaranty, the President is proposing a substantial tax increase, indeed!

The Fee Would Increase Borrowing Costs to Veterans

The VA has indicated that veterans would be allowed to include the origination fee in the principal balance of the loan. Using this approach, the 3.8 percent fee would be paid by the lender to the VA at the time the mortgage was originated, and the veteran would pay back this advance, with interest, over the life of the loan. Based on historical data furnished by the Loan Guaranty Department of the VA, MBA has calculated the amount of the average VA-guaranteed mortgage in 1985 to be $66,279, on which the proposed additional fee would be $1,856. For the average VA mortgage in 1985 of $66,279, the extra payments, over the full 30-year term for which VA-guaranteed mortgages typically are written, would amount to extra payments totalling approximately $9,000. This extra cost to the borrower of the average mortgage amount is an arithmetical calculation based upon an interest rate of 11 percent, which was the administratively allowed rate when the calculations were made.

There is another way of expressing the cost to veterans of imposing the 3.8 percent fee. Again using the average 1985 VA-guaranteed mortgage of $66,279, the minimum family income needed to qualify for the average mortgage, using typical underwriting standards, today would be $20,000. If the full 3.8 percent fee were imposed, and the necessary

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monthly payment increase recognized, the required minimum income would have to be $20,740.

The importance of this differenee is realized in the fact that most VA guaranteed loans are no-downpayment loans; that is, the amount of the loan is the price of the house. Thus, where without the imposition of the proposed 3.8 percent fee, veterans with incomes of $20,000 and above could afford the house financed by the $66,279 mortgage; with the fee, only veterans with incomes of $20,740 and above could afford it. Based on the most recent census statistical distribution of veterans' income, approximately 530,000 veterans would thus be precluded statistically from buying the house now financed with the average 1985 VA-guaranteed loan. (Veterans in the United States, A Statistical Portrait from the 1980 Census, VA, October 1984.)

Averages are not the only way to understand the adverse impact upon the cost to veterans that adoption of the proposed increase in the fee would have. In fact, the hardest hit veterans would be those in the lower income ranges. The VA has a procedure whereby marginal cases are specially reviewed prior to being approved. Marginal cases are those where the veteran is stretching to buy a home. In calendar year 1984, approximately 60 percent of VA's marginal prior approval cases were for mortgages below the average mortgage. The impact of the increased cost of the higher fee will affect most severely those borrowers who are on the margin and who are struggling to achieve homeownership by the use of the VA program.

The Fee Would Threaten No-Downpayment

The VA has indicated that it will allow veterans to pay the proposed increase in the guaranty fee direct to the VA in cash, or allow lenders to advance the fee on the veteran's

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behalf and add the advance onto the original balance of the loan. If such inclusion in the loan is not fully and continually allowed, the effect is the same as requiring a downpayment of 3.8 percent. Because the inclusion of a 3.8 percent fee in the principal amount of the mortgage could make the total housing debt of the veteran more than the resale value of the house, the VA may find it impossible to continue to allow the fee to be financed.

The Fee Is a Transfer of Burden

In proposing that homebuying veterans should increase their mortgage debt by the amount of the proposed additional origination fee, the Administration is asking veterans to shoulder the burden of expenses brought about by other veterans who entered the home loan guaranty program earlier. This is another reflection that the proposed fee is not user-cost related. Moreover, it shows a willingness of the Administration to transfer the burden of general government obligations, entered into willingly in the past, to a specific, targeted group of taxpayers who are not specifically benefitting from those obligations.

The Fee Is Contrary to a Commitment to Veterans

When Congress created the VA home loan guaranty program in 1944 to assist veterans returning from World War II to buy a home, Congress did not design it or intend it to be user-fee supported. The program was a recognition by a grateful nation that the men and women who had foregone civilian life, many of them against their will, to defend the vital interests of the country should be aided in achieving homeownership. The program was partial payment for services performed.

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To young persons who entered military service in subsequent years to protect the vital interests of the nation in Korea, Vietnam, and elsewhere, the program became a commitment. That commitment has been reviewed from time to time, and Congress has always determined to renew it, the latest review being only a year ago.

From the beginning, there was a realization that the program would need appropriations, and appropriations have been made in several fiscal years during the operation of the program. In 1984, Congress was faced with the fact that the economic cycle and certain changes in other VA operations precluded the VA from funding the home loan guaranty program from internal VA sources, and that appropriations would be required to continue the program.

Congress considered whether to renew its commitment to qualified veterans, especially the Vietnam veterans who are now reaching the point in their lives when they are ready to buy a home. The requested authorization and appropriations were granted; the VA was directed to administer the program in certain ways to reduce costs; and a 1 percent temporary funding fee was set to expire September 30, 1987.

The effects on the program of the 1984 directives by Congress, of course, need to be studied, and the program may need further adjustments. But, as recently as a year ago, Congress renewed its commitment to qualified veterans to assist them in buying a home, with a relatively nominal funding fee of 1 percent through 1987.

The Fee Is an Indirect Attack on the Program

Beginning in 1981, the Reagan Administration has consistently demonstrated that it believes that the Government should discontinue any commitment to supporting the

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homeownership aspirations of Americans. In 1981, the Administration proposed a roll-back and elimination of the Federal Housing Administration (FHA) mortgage insurance program and the Government National Mortgage Association (GNMA) guaranteed mortgage-backed security program. Congress disagreed. Two years ago, the Administration proposed a scheme under which the VA would make lenders dispose of all properties after default, even after the Administration had been warned that such a drastic and retroactive change could wreck the program. Congress would not allow it.

Last year, the Administration recalled the political theory tenet that "the power to tax is the power to destroy." By proposing first a 5 percent tax and now a 3.8 percent tax on the users of the VA home loan guaranty program, the Administration tried to accomplish indirectly what it could not achieve directly: a diminution and even a phasing out of the VA home loan guaranty program.

MBA strongly urges that this Committee and the Congress reject the proposed increase in guaranty "fee" for the VA home loan program.

FY 1987 BUDGET

With the enactment of the Balanced Budget and Deficit Control Act of 1985 (PL 99-177) the parameters of the budget process, as it affects the smooth operation of the VA home loan guaranty program, are not as clear as they have been in the past. The President's FY 1987 Budget (Appendix, page I-Y20 line 2111 and 2131) appears to recognize that the dollar volume of loans that will be guaranteed by the VA in FY 1987 is not subject to budget or other limitation. This observation is consistent with the concept that the

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program serves veterans who are entitled to use it when they are ready to do so because they, by their service to the county in the armed forces, have earned that entitlement. It is also consistent with the historical treatment of the program.

Under the new budget procedures, as they develop over the next several months, this historically consistent approach may continue to prove beneficial to the continued ability of the VA to operate the home loan guaranty program to serve the veterans of America. If, however, the budget process, including the threat of sequestration under PL 99-177, suggests that loan guaranty authority for FY 1987 be set for the VA home loan guaranty program, then MBA urges the Congress to set those limits sufficiently high to allow the uninterrupted operation of the program. Adjusting the VA's estimate of FY 1986 activity of $18.2 billion by an estimated inflation of 4 percent, MBA would estimate the FY 1987 activity at $18.7 billion.

The President's FY 1987 Budget (Appendix, page I-Y19 line 40.00) also indicates that no appropriations will be required for operation of the VA home loan guaranty program during the year. Although there will be a shortfall in the Home Loan Guaranty Revolving Fund, transfers from other sources within the VA will be used to assure that all claims are paid. This approach is also consistent with historical budget procedures.

If the budget process develops in a manner that makes supplementary appropriations impossible to obtain, and if the President's prediction of not needing appropriations proves inaccurate, then MBA urges Congress to appropriate sufficient funds initially to cover the contingency that claims against the Home Loan Revolving Fund be greater than anticipated, or recoveries less.

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OPERATION OF THE VA HOME LOAN GUARANTY PROGRAM

The VA home loan guaranty program is an entitlement program established under the Serviceman's Readjustment Act of 1944. The program's purpose is to assist qualified veterans to achieve homeownership. The program provides two primary benefits to qualified veterans. First, the VA guarantees a portion of the veteran's mortgage principal. The amount of this guaranty has varied over the years and is now 60 percent of the loan amount, up to a maximum of $27,500. With this guaranty available, mortgage lenders are able to provide veterans purchasing homes with financing at a lower rate than is available when the program is not available. The second benefit offered by the program is the stipulation that no downpayment need be required by the lender. A loan with no downpayment is a "100 percent loan" because the loan amount is 100 percent of the value of the property. On an annual basis from 1977 to 1985, between 58 percent and 70 percent of VA-guaranteed loans closed were 100 percent loans. (See Exhibit 1.)

Since the VA initiated its program in 1944 until the end of 1985, 11.6 million loans have been guaranteed under the VA home loan guaranty program. The vast majority of those loans have cost taxpayers only the administrative cost of processing the initial approval. Only four percent of those loans have resulted in foreclosure. The foreclosure rate for VA-guaranteed loans has increased somewhat in the past two years following the severe recession that gripped the U.S. economy and the historically high unemployment rates that resulted (Exhibit 2 and Exhibit 3).

The budgetary mechanism for the Loan Guaranty Program is the Loan Guaranty Revolving Fund (LGRF). The fund was established to balance the income and expenses caused by the operation of the program. Income for the fund is derived primarily through the sale of "vendee" loans. Vendee loans are loans made by the VA to a borrower when a VA-acquired

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property is sold. Expenses accrued by the LGRF are predominantly from the acquisition of foreclosed properties.

Historically, when the LGRF was in a deficit position, the VA transferred money from its Direct Loan Revolving Fund (DLRF). The DLRF was created by Congress to enable the VA to make direct loans to veterans who live in credit-short areas and can find no other lender to make a VA-guaranteed loan. In such instances, the VA acted as a lender and the earnings on the direct loans provided the VA with a surplus in the DLRF.

Four years ago, the VA was instructed by the Administration to make no more direct loans. Consequently, the net earnings of the DLRF is diminishing. In the immediate past years, the DLRF was inadequate to fund the LGRF and Congressional appropriations were necessary. For FY 1987, the VA proposes that no appropriations will be necessary, because the surplus in the DLRF will be adequate to cover the net claims on the LGRF.

The VA Home Loan Program Has Performed Consistently With the Market

A dramatic consequence of the reduction of the DLRF's ability to provide funding for the LGRF has been to make it appear that the loan guaranty program is experiencing losses beyond expectations and beyond comparable mortgage programs. In fact, the change in the VA home loan guaranty program foreclosure and claim rate actually has been better, relatively, than the increase in foreclosures of conventional loans, which are loans that are not insured or guaranteed by the government (Exhibit 4). And compared with the FHA, while VA guaranteed loans have had a higher foreclosure rate than FHA-insured mortgages since the mid 1970s, the relative relationship has remained substantially constant (Exhibit 5). These relative relationships suggest that the VA program is

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inherently sound and being operated consistent with the mortgage programs of the FHA and conventional lenders.

Restorations

The only significant aberration that MBA has noted in the recent foreclosure statistics of the VA home loan guaranty program are those for restoration loans. Restoration loans are those guaranteed by the VA pursuant to a restoration of entitlement to a veteran who has paid off (or had another eligible veteran assume) an earlier loan guaranteed by the VA.

While the proportion of VA guaranteed restoration loans remained substantially constant from 1978 to 1983 at 11 percent of loans guaranteed, the proportion of claims for restoration loans has risen steadily from 1.3 percent of total claims to 8.3 percent from 1978 to 1985 (Exhibit 6 and Exhibit 7). The information available does not yet provide an explanation of this disproportionate increase, but further study is suggested.

Improvements Can Be Made

At the suggestion of the VA Administrator, in the spring of 1985, MBA created a special ad hoc task force to work in cooperation with the VA to make recommendations to the VA for improvements to reduce losses in the home loan guaranty program.

That task force reported to the VA in June 1985, and the VA has adopted some of the program changes recommended by the task force. A copy of the MBA task force report was made available to this Subcommittee at that time but, so far as is known to MBA, has not been included in a formal record. A copy of the full report is attached hereto as an Appendix, should the Subcommittee wish to place the report in the record.

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The changes recommended by the MBA task force are all changes that the VA could make without statutory change. Title III of S 1887, the "Veterans' Compensation and Benefits Improvements Act of 1985," contains some of the same concepts as the MBA task force report. The difference, of course, is that the bill, if enacted, would require the VA to make the program changes set forth in the bill.

Proper origination and guaranteeing of mortgage loans is a subtle and difficult activity. If Congress determines, by the passage of S 1887, to mandate certain aspects of the guaranty process, all involved should be aware that, when the law is tried in practice, certain unforeseen effects may result, and remedial and prompt amendments may be necessary.

Title III of the "Veterans' Compensation and Benefits Act of 1985"

Section 302 S 1887 would require the VA to prescribe in regulations the credit underwriting standards to be used in the program and the standards to be used by lenders in obtaining credit information and processing loans. The standards must include a maximum debt-to-income ratio; must be designed to assure that "to the maximum extent practicable" the loan will be repaid; and "reflect the loan underwriting principles generally accepted and used by commercial lending institutions." Lenders would be required to certify that the lender followed the processing standards and that, to the best of the lender's knowledge, the loan meets the underwriting standards. The VA would have authority to waive the standards in extraordinary cases.

Also, guaranty applicants would be required to certify whether they had been rejected for a loan on the same property.

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Instead of establishing maximum ratios for housing expenses and debts, VA relies on the underwriter's judgment in these areas. VA offices rely on the residual method of underwriting, that is, the amount of monthly income a family should have left after meeting housing and debt obligations. Each VA locality establishes a minimum income residual for differing family sizes based on a survey of local factors. The VA loan approval is based on the veteran meeting this residual income level. VA field offices indicate that the residual income levels are guidelines for underwriting and that each veteran's loan application is to be reviewed from a total underwriting standpoint, taking into consideration all applicable factors that indicate the veteran's capacity and probability of repaying the loan. Nevertheless, underwriters rely on the residual income amount as the key factor in approving the loan. The conventional market does not use residuals at all, and FHA uses residuals to a limited degree in addition to ratios.

In light of the current losses in the VA program, it is time that VA reexamine its underwriting criteria toward relying less on the residual approach and designing underwriting criteria that limit eligible veterans to those that are creditworthy, by relying to a greater degree on debt and housing expense analysis.

Lender Certifications

Section 302 of S 1887 also would require each lender to certify that the lender complied with the credit information and loan processing standards established pursuant to the Act, and establishes a minimum fine of $10,000 and a maximum fine of two times the amount of the VA's loss on the loan involved, at the discretion of the VA. The fine would apply to any lender who "knowingly and willfully makes a false certification."

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While the concept of honest certification is beyond question, the language of the Act could be interpreted to include a lender that intended to make the certification, unaware it was false. The paragraph should be reworked to clarify that fraud, not oversight, is the punishable act. For example, covering a lender "who makes a certification, knowing it to be false," would more accurately target the Act. Also, while the discretion of the VA for fair enforcement would presumably be subject to review, the provision is basically a criminal statute and the judgment should be with the judiciary, not an administrative officer.

Default and Foreclosure Period Timetable

Section 304 of S 1887 would require loan holders to notify the VA if the debtor failed to make two consecutive monthly payments, and to "initiate foreclosure" within 15 days of the failure to make the fourth consecutive monthly payment, unless there exists an approved forbearance agreement. Failure to initiate foreclosure would result in a loss of interest being included in the claim from the date foreclosure should have been initiated until the date foreclosure is initiated.

The VA would be directed to compile and report to Congress information on common factors contributing to foreclosure in the program.

The current practice is to notify the VA after three monthly payments are not received. While lenders can notify the VA after 60 days delinquency rather than 90, such an earlier notice would seem to do no good unless the VA was provided with additional resources to contact and counsel delinquent borrowers immediately. The current "cure rate" for defaults reported to the VA is approximately 82 percent. Thus, the 30 day earlier reporting procedure would be addressing a marginal 18 percent. Under typical loan

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servicing procedures, the second missed monthly payment is the trigger that alerts the loan servicer that special attention must be given to the case. A substantial proportion of default cases at this stage are technical defaults rather than the result of financial problems. Payments applied to the wrong account, or a mixup between house occupants as to which one was to make the payment, are examples of "defaults" that are not reflective of a borrower developing financial problems. By continuing the practice of reporting defaults to the VA after 90 days, the VA would not be burdened with duplicating the efforts that mortgage servicers now expend during the third month (the 60-to-90 day period) to straighten out the case and determine why payments have not been received regularly.

Foreclosure Safety Valve Needed

The requirement that the lender initiate foreclosure within 15 days after the fourth monthly mortgage payment is missed would certainly focus the lender's attention to the prompt processing of defaulted VA guaranteed loans. Lenders generally could adjust their procedures to comply, but the impact of such a strict rule could unnecessarily hurt the veteran borrower.

Foreclosure is initiated in different ways in different states and localities. In many areas, the first step is to retain a lawyer and file foreclosure papers with the appropriate court. In other areas, initiation of foreclosure is a less formal process. Presumably, VA regulations will clarify just what action is needed in each state to satisfy this requirement, if the Act is adopted. But in all jurisdictions, initiating foreclosure incurs costs—costs that must be borne by the veteran borrower who wants to cure the mortgage default and retain his or her home.

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By reference to existing law, the Act would allow only one safety valve from this automatic initiation of foreclosure. The only exception is where there is in existence a forbearance agreement formally approved by the VA. The experience of the mortgage banking industry suggests that the time between the recognition of default and the prescribed time to initiate foreclosure will prove inadequate to work out, compose, and have approved a three-party formal forbearance agreement in any but a few rare cases.

Experienced servicers suggest that the rule might be workable if the exception to the automatic foreclosure rule were that a forbearance agreement were in effect between the lender and the veteran borrower, without requiring prior VA approval.

One important technical point should be added. In many cases, the acquisition of the property after default can be accomplished by a deed in lieu of foreclosure, which is a much less costly method. The legislation, by amendment or legislative history, should clarify that initiation of some action to acquire title, such as by way of a deed in lieu of foreclosure, would satisfy the requirement to initiate foreclosure.

Appraisals

Section 308 of S 1887 would require the VA to set standards for appraisers it approves, and, in consultation with lenders, to develop a list of appraisers to be assigned in rotation, and from which the lender can select any appraiser for a second appraisal, if the lender is dissatisfied with the initial appraisal. Under Section 308, the VA would establish fees for approved appraisers that were comparable to fees generally paid.

In the area of appraisals, some progress has been made. One of the suggestions made by the MBA task force, which was established in early 1985 to recommend changes in the VA

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home loan guaranty program, was that VA should allow lenders to select appraisers. Earlier conversations in 1985 with the VA resulted in lenders at least receiving a copy of the appraisal in a case, so that some review of the appraisal could be exercised.

The proposal in S 1887 is a small step in the right direction in that lenders would have some, albeit small, say in selecting the appraiser for a loan. MBA continues to believe that lenders should make the selection of the appraiser, at a minimum, from a VA list of approved appraisers. While the ability to obtain a second appraisal using an appraiser of the lender's choice might seem to accomplish this result, it does not do so because there is no source of payment for the second appraiser's fee.

With regard to the establishment by the VA of standards and of comparable fees for approved appraisers, MBA has long recognized that quality is best achieved through the operation of the free market, and that the opportunity for fair profit works well to provide quality. If VA approved appraisers are to produce quality appraisals, they must be compensated with market-determined fees, and the VA should be conscientious in reviewing the quality of its approved appraisers and removing appraisers who consistently submit poor quality work.

Increase In Guaranty Maximum

MBA supports the proposal included in Section 303 of S 1887, to increase the maximum amount of the VA home loan guaranty from $27,500 to $33,500. Such an increase would bring the relationship between the level of the guaranty amount and the ever increasing cost of new and existing housing closer to historical ratios.

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From 1974 to 1985, the median price of new single-family homes sold jumped from $35,900 to $83,300, an increase of 132 percent. Had the VA maximum guaranty been adjusted annually in equal proportion to the increase in new home prices, the 1985 guaranty would have reached $40,600 (Exhibit 10).

The median price of existing single-family homes sold increased over 130 percent during the period 1974 through 1985, from $32,000 in 1974 to $74,600 in 1985. Adjusting the VA maximum guaranty for annual increases in existing home prices for this period would have resulted in a maximum guaranty of over $40,600 in 1984 (Exhibit 10).

VENDEE LOANS

The President's budget for FY 1985 indicated that the VA would discontinue selling vendee loans with recourse. MBA opposed that proposed change in current practice. Sale of vendee loans without recourse shifts the credit risk of default from the VA to private purchasers, and purchasers necessarily adjust their purchase prices accordingly. Because of its size, and because it is the lender, the Government is a more efficient manager of vendee loan credit risk than any private buyer can be. Therefore, it can be expected that the reduction in the sales price paid by the private industry buyers of vendee loans will be greater than the savings the Government might realize by transferring the risk of default. In the Deficit Reduction Act of 1984 (PL 98-369), a target of the proportion vendee loans was set for the VA. MBA urges that the quota concept be removed, and that the VA be allowed to use guaranteed vendee loans as fully as it deems economically advantageous in selling property acquired in the home loan guaranty program.

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FREE VA INTEREST RATE

Under current law, the maximum interest rate allowable on a mortgage guaranteed by the VA is fixed by the VA Administrator. MBA has consistently urged that the law be amended to allow interest rates to be determined by the market.

ADJUSTABLE RATE MORTGAGES

MBA urges that the VA be authorized to include adjustable rate mortgages (ARMs) in the home loan guaranty program. During the past four years, ARMs have become accepted by borrowers in the conventional mortgage market. FHA has expanded its insurance program to include ARMs. The conventional and FHA markets have demonstrated that ARMs are beneficial because they permit borrowers and lenders to tailor transactions to the needs of borrowers. Borrowers who do not want to pay for the predictability of a fixed rate mortgage can achieve the lower interest rates that lenders can offer when the borrower bears some of the risk of inflation or other economic conditions that cause rates generally to rise.

MBA believes that VA ARMs should be authorized without statutory ceilings or caps on market adjustments. Adjustments should be freely negotiated, just as traditional long-term fixed rate mortgage interest rates should be. At the most, authority could be left with the Administrator of the VA to set caps for ARMs in the home loan program as the program and the veterans it benefits gain experience with ARMs.

Whatever may have been the case previously, ARMs are no longer an untested and unknown quantity. Approximately 53 percent of new conventional mortgages originated in

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the last quarter of 1983 were ARMs. The percentage continued to rise to 57 percent by the last quarter of 1984 and dropped back to 50 percent in 1985. (Federal Home Loan Bank Board "Conventional Home Mortgage Rates," February 1986.) Although substantially lower interest rates restored borrower ability to select fixed rate mortgages in 1985 and early 1986, ARMs continue to be a significant borrower option in the conventional and FHA markets. Veteran borrowers should also enjoy the option.

MBA appreciates the opportunity to appear before the Subcommittee, and would be pleased to furnish any additional information that may be needed.

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Table to Accompany Statement of Ronnie J. Wynn
Mortgage Bankers Association of America, March 5, 1986

EXHIBIT 1

VA HOME LOAN GUARANTY PROGRAM ACTIVITY
PRIMARY HOME LOANS CLOSED

Total 1/

	Number	Loan Amount ($Mil)	Average Loan Amount	Average Purchase Price	Avg. Loan to Value Ratio
1977	371,610	13,260	$35,683	$36,982	96.5
1978	352,797	13,959	$39,567	$41,079	96.3
1979	345,708	15,991	$46,256	$48,555	95.3
1980	255,631	13,257	$51,860	$55,092	94.1
1981	136,027	7,543	$55,452	$58,833	94.3
1982	87,027	5,053	$58,062	$63,112	92.0
1983	227,155	14,092	$62,037	$66,723	93.0
1984	181,771	11,633	$63,998	$67,584	94.7
1985	155,900	10,292	$66,017	$69,182	95.4

1/Loans for refinancing not included.

100% Loans

	Number	Percent of Total Number	Loan Amount ($Mil)	Average Loan Amount
1977	259,509	69.93	8,817	$33,975
1978	244,458	69.29	9,091	$37,188
1979	234,810	67.92	10,260	$43,695
1980	169,839	66.44	8,195	$48,254
1981	89,758	65.99	4,589	$50,901
1982	30,285	37.78	2,629	$52,284
1983	137,315	60.45	7,868	$57,299
1984	118,218	65.04	7,042	$59,564
1985	109,547	70.25	6,862	$62,638

Source: Program Management Service, Loan Guaranty Department of the Veterans Administration.

Prepared by Mortgage Bankers Association of America, Economics Department, February 1986.

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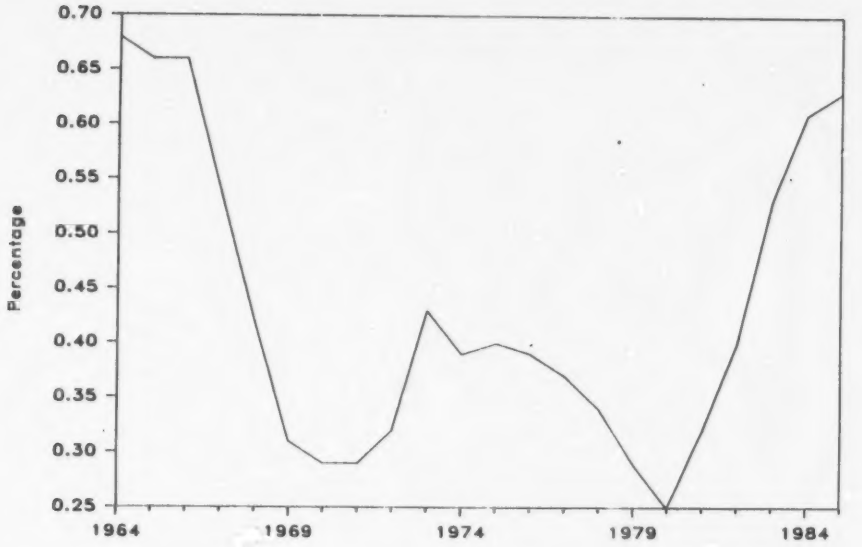
VA CLAIMS PAID DURING YEAR AS A PERCENT OF VA LOANS OUTSTANDING END OF YEAR



Source: Veterans Administration, Loan Guaranty Department
Prepared by the Mortgage Bankers Association of America, Economics Department, February 1986

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Table to Accompany Statement of Ronnie J. Wynn
Mortgage Bankers Association of America, March 5, 1986

EXHIBIT 3

FORECLOSURES STARTED
(Percent of Number of Loans Serviced)

	VA	FHA	CONVENTIONAL
1979	.70	.78	.25
1980	.70	.74	.31
1981	.72	.83	.42
1982	.92	1.07	.53
1983	.97	1.03	.63
1984	.95	1.03	.63
1985	1.06	1.16	.70

Source: National Delinquency Survey, Mortgage Bankers Association of America, February 1986.

FORECLOSURES COMPLETED
(Percent of Number of Loans Outstanding)

	VA 1/	FHA 2/	CONVENTIONAL 3/
1979	.30	.48	.09
1980	.25	.41	.12
1981	.32	.40	.18
1982	.40	.46	.33
1983	.53	.67	.41
1984	.61	.75	.37
1985	.63	.81	NA

Sources:
1/ Veterans Administration
2/ Federal Housing Administration
3/ Federal Home Loan Bank Board. Note: Includes all conventional mortgage loans.

Prepared by the Mortgage Bankers Association of America, Economics Department, February 1986.

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Table to Accompany Statement of Ronnie J. Wynn
Mortgage Bankers Association of America, March 5, 1986

EXHIBIT 4

NUMBER OF FORECLOSURES STARTED DURING QUARTER AS A PERCENT OF NUMBER OF LOANS SERVICED FOR 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS

Yr. Qtr.	VA	FHA	Conv.
1973.1	0.18	0.43	0.05
1973.2	0.19	0.41	0.05
1973.3	0.19	0.40	0.06
1973.4	0.18	0.40	0.07
1974.1	0.18	0.37	0.08
1974.2	0.17	0.38	0.06
1974.3	0.19	0.37	0.08
1974.4	0.20	0.38	0.09
1975.1	0.21	0.33	0.10
1975.2	0.23	0.34	0.10
1975.3	0.21	0.31	0.09
1975.4	0.19	0.26	0.09
1976.1	0.18	0.24	0.07
1976.2	0.19	0.20	0.08
1976.3	0.19	0.21	0.08
1976.4	0.20	0.24	0.09
1977.1	0.22	0.24	0.08
1977.2	0.21	0.23	0.08
1977.3	0.20	0.22	0.07
1977.4	0.19	0.20	0.07
1978.1	0.19	0.21	0.06
1978.2	0.18	0.22	0.06
1978.3	0.20	0.21	0.06
1978.4	0.20	0.22	0.07
1979.1	0.19	0.22	0.07
1979.2	0.17	0.19	0.06
1979.3	0.15	0.13	0.06
1979.4	0.19	0.21	0.06
1980.1	0.16	0.16	0.07
1980.2	0.17	0.18	0.07
1980.3	0.19	0.20	0.08
1980.4	0.19	0.21	0.09
1981.1	0.18	0.20	0.09
1981.2	0.19	0.22	0.10
1981.3	0.17	0.19	0.11
1981.4	0.19	0.21	0.11
1982.1	0.22	0.25	0.13
1982.2	0.22	0.25	0.12
1982.3	0.24	0.28	0.14
1982.4	0.24	0.29	0.14
1983.1	0.23	0.25	0.14
1983.2	0.26	0.28	0.16
1983.3	0.24	0.26	0.15
1983.4	0.24	0.24	0.17
1984.1	0.23	0.23	0.13
1984.2	0.24	0.25	0.16
1984.3	0.27	0.30	0.19
1984.4	0.21	0.25	0.15
1985.1	0.27	0.30	0.17
1985.2	0.26	0.28	0.18
1985.3	0.26	0.29	0.17

Source: National Delinquency Survey, Mortgage Bankers Association of America.

Prepared by the Mortgage Bankers Association of America, Economics Department, February 1986.

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Table to Accompany Statement of Ronnie J. Wynn
Mortgage Bankers Association of America, March 5, 1986

EXHIBIT 5

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Table to Accompany Statement of Ronnie J. Wynn
Mortgage Bankers Association of America, March 5, 1986

EXHIBIT 6

VA RESTORATION USE AND FORECLOSURES

	Restoration Use (Percent of Originations)	Restorations Foreclosures (Percent of All VA Foreclosures)
1978	10.3	1.3
1979	11.0	1.6
1980	11.2	2.9
1981	10.4	4.4
1982	10.1	6.6
1983	10.6	7.7
1984	10.8	7.9
1985	11.2	8.3

Source: Veterans Administration, Loan Guaranty Department

Prepared by the MBA Economics Department, February 1986.

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EXHIBIT 7

VA RESTORATION USE AS A PERCENT OF VA ORIGINATIONS, AND RESTORATIONS FORECLOSED AS A PERCENT OF ALL VA FORECLOSURES

Source: Veterans Administration, Loan Guaranty Department

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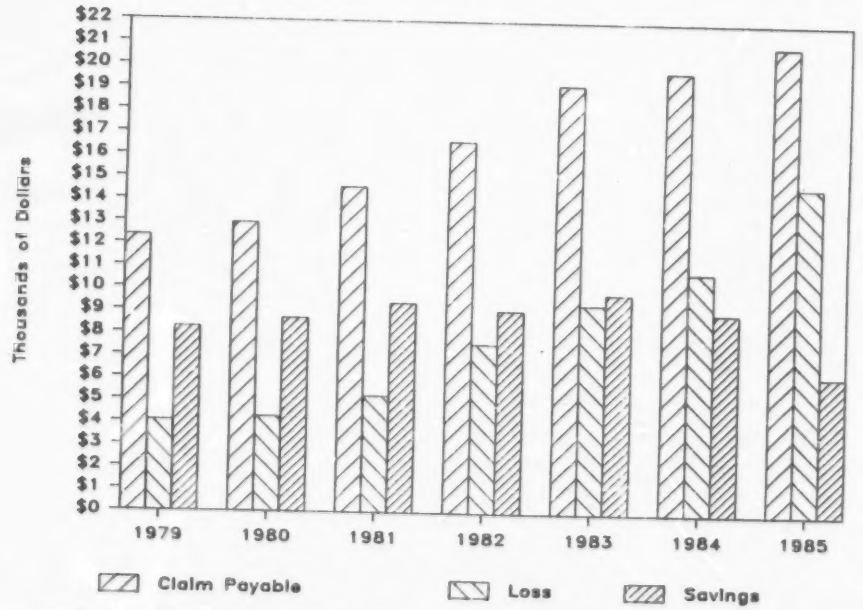
**AVERAGE VA CLAIM PAYABLE FOR PROPERTY SOLD DURING FISCAL YEAR;
AVERAGE LOSS FOR PROPERTY SOLD DURING FISCAL YEAR;
AVERAGE SAVINGS FROM SALE OF PROPERTY DURING FISCAL YEAR**



Source: Veterans Administration, Loan Guaranty Department

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Table to Accompany Statement of Ronnie J. Wynn
Mortgage Bankers Association of America, March 5, 1986

EXHIBIT 9

MORTGAGE BANKERS ORIGINATIONS OF VA AND FHA LOANS AS A PERCENT OF TOTAL VA AND FHA ORIGINATIONS

		Mortgage Bankers Originations ($ millions)		Percent of Total Originations of:	
		VA	FHA	VA	FHA
1975		$ 6,326	$ 4,601	71.6%	73.4%
1976		7,381	5,096	70.8	72.8
1977		11,624	8,228	78.1	78.6
1978		12,372	11,587	77.2	79.5
1979		15,554	17,397	82.4	83.9
1980		9,567	12,161	79.1	81.3
1981		6,044	8,736	80.2	82.9
1982		6,158	9,808	80.1	35.4
1983		14,148	22,936	74.9	79.8
1984		8,553	12,532	71.1	75.5
1985	QI	1,997	3,813	77.1	80.6
	QII	2,594	5,051	73.4	81.2

Source: Survey of Mortgage Lending, Department of Housing and Urban Development.

Prepared by the Mortgage Bankers Association of America, Economics Department, February 1986.

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Table to Accompany Statement of Ronnie J. Wynn
Mortgage Bankers Association of America, March 5, 1986

EXHIBIT 10

	Maximum VA Guaranty		Median Sales Prices					
			Existing Homes		New Homes		All Homes 1/	
	Amount	% Change From 1974	Price	% Change From 1974	Price	% Change From 1974	Price	% Change From 1974
1974	$17,500	NA	$32,000	NA	$35,900	NA	$32,725	NA
1975	$17,500	0.0	$35,300	10.3	$39,300	9.5	$36,026	10.1
1976	$17,500	0.0	$38,100	19.1	$44,200	23.1	$39,162	19.7
1977	$17,500	0.0	$42,900	34.1	$48,800	35.9	$43,981	34.4
1978	$25,000	42.9	$48,700	52.2	$55,700	55.2	$49,891	52.5
1979	$25,000	42.9	$55,700	74.1	$62,900	75.2	$56,825	73.6
1980	$27,500	57.1	$62,200	94.4	$64,600	79.9	$62,572	91.2
1981	$27,500	57.1	$66,400	107.5	$68,900	91.9	$66,782	104.1
1982	$27,500	57.1	$67,800	111.9	$69,300	93.0	$68,057	108.0
1983	$27,500	57.1	$70,300	119.7	$75,300	109.7	$71,232	117.7
1984	$27,500	57.1	$72,800	127.5	$79,900	122.6	$74,094	126.4
1985	$27,500	57.1	$74,600	133.1	$83,300	132.0	$76,108	132.6

	Maximum VA Guaranty	Price Adjusted VA Guaranty			RATIO: Price Adjusted Guaranty to Actual Guaranty		
		For Existing Homes	For New Homes	For All 1/ Homes	For Existing Homes	For New Homes	For All 1/ Homes
1974	$17,500	$17,500	$17,500	$17,500	1.00	1.00	1.00
1975	$17,500	$19,305	$19,157	$19,265	1.10	1.09	1.10
1976	$17,500	$20,836	$21,546	$20,942	1.19	1.23	1.20
1977	$17,500	$23,461	$23,788	$23,519	1.34	1.36	1.34
1978	$25,000	$26,633	$27,152	$26,679	1.07	1.09	1.07
1979	$25,000	$30,461	$30,662	$30,388	1.22	1.23	1.22
1980	$27,500	$34,016	$31,490	$33,461	1.24	1.15	1.22
1981	$27,500	$36,313	$33,586	$35,712	1.32	1.22	1.30
1982	$27,500	$37,078	$33,781	$36,394	1.35	1.23	1.32
1983	$27,500	$38,445	$36,706	$38,092	1.40	1.33	1.39
1984	$27,500	$39,813	$38,948	$39,622	1.45	1.42	1.44
1985	$27,500	$40,793	$40,600	$40,760	1.49	1.48	1.48

Sources: Bureau of the Census; National Association of Realtors.

1/Weighted average (by sales activity) of median sales prices of new and existing single-family homes sold.

Prepared by the Mortgage Bankers Association of America, Economics Department, February 1986.

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Report of the VA Task Force

Mortgage Bankers Association of America

Chairman, Herbert B. Tasker, CMB

June, 1985

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Recommendations of the VA Task Force

I. Origination/Underwriting

- VA should reevaluate its Home Loan Guaranty Program underwriting standards with an eye toward revising those standards to assure that only creditworthy veterans are found qualified for VA loans.

- VA Lenders should consider stiffening their individual company's underwriting guidelines for VA loans beyond those imposed by VA.

- VA loan guaranty field offices should be instructed that loan underwriting decisions should be made strictly on the basis of underwriting standards and that VA borrowers are ill-served if uncreditworthy veterans are approved for loans.

- VA should encourage VA Lenders to increase their use of the VA Automatic Program.

- VA should develop a system that identifies a loan that is submitted to VA on a prior approval basis or submitted to another VA lender that has already been rejected by a lender using the Automatic Program.

- VA Lenders should set up procedures to determine if their branch offices are sending loans to VA on a prior approval basis that have already been rejected by the company's underwriters using the Automatic program.

II. Appraisals

- Lenders underwriters should develop expertise in appraisal underwriting and apply that expertise to VA appraisals.

- A standard appraisal form should be developed for use by VA, FHA, FNMA, and FHLMC.

- VA should consider allowing lenders to select appraisers.

- VA should require photographs of comparables on appraisals.

- VA should develop a system to identify appraisers who performed the original appraisal on all foreclosed properties in order to determine if those properties that end in foreclosure consistently have signficiantly lower values at the time of foreclosure then at the time of origination.

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III. Servicing/Foreclosure Procedures

- VA should exclude from its calculations on costs associated with acquiring a foreclosed property the amount of interest that accrues during periods of forebearance. This should include bankruptcy workouts.

- VA should encourage lenders to contract with third-party counselors for the purpose of making pay-out arrangements with delinquent borrowers.

- VA Lenders should review VA foreclosed loans to determine the major areas creating losses so that VA can use this information in redesigning its underwriting criteria.

- VA Lenders need to be aware that in the event of foreclosure, if the house is abandoned and vacant, lenders can proceed with foreclosure without approval from the VA field office.

- VA Lenders should make use of the procedure allowing VA to pay a partial claim in those instances where someone can take over the property for less than is due.

- VA Lenders should make use of the procedures that allows veterans to be paid for a deed in lieu of foreclosure as long as VA approves the deed in lieu.

- VA field offices should issue bidding instructions on foreclosed properties on a timely basis.

- VA should combine the "Notice of Default" and "Notice of Intention to Foreclosure" into a new, single notification to the VA and allow this single form to be filed after the 60th day of default.

I. Origination/Underwriting

VA should reevaluate its Home Loan Guaranty program procedures with an eye toward designing procedures that assure that only creditworthy veterans are recipients.

VA's underwriting guidelines as to the financial capabilities of the borrower are less stringent than those of the conventional mortgage market and the Federal Housing Administration (FHA). For example, for fixed rate loans the conventional mortgage market relies on a housing expense ratio not to exceed 25 to 28 percent of an applicant's gross monthly income and a debt to income ratio not to exceed 30 to 36 percent of an applicant's gross monthly income. FHA uses a housing expense ratio not to exceed 35 percent of an applicant's net effective income (a proposed change will make this 38 percent) and a debt

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to income ratio not to exceed 50 percent of an applicant's net effective income (a proposed change will make this 53 percent). VA uses no such system of maximum allowable debt and/or housing expense ratios.

Instead of establishing maximum ratios for housing expenses and debts, VA relies on the underwriter's judgement in these areas. VA offices rely on the residual method of underwriting, that is the amount of monthly income a family should have left after meeting housing and debt obligations. Each VA locality establishes a minimum income residual for differing family sizes based on a survey of local factors. The VA loan approval is based on the veteran meeting this residual income level. VA field offices indicate that the residual income levels are guidelines for underwriting and that each veteran's loan application is to be reviewed from a total underwriting standpoint, taking into consideration all applicable factors that indicate the veteran's capacity and probability of repaying the loan. Nevertheless, underwriters rely on the residual income amount as the key factor in approving the loan. The conventional market does not use residuals at all and FHA uses residuals to a limited degree in addition to ratios.

In light of the current losses in the VA program, it is time that VA reexamine its underwriting criteria toward relying less on the residual approach and designing underwriting criteria that limits eligible veterans to those that are creditworthy, by relying to a greater degree on debt and housing expense analysis.

An increase in standards for future VA home loan originations will not serve to minimize losses on loans already made that may end in foreclosure. A positive effect will not be felt immediately but would result in the long run.

<u>VA Lenders should consider stiffening their individual company's underwriting guidelines for VA loans beyond those imposed by VA.</u>

Only the VA can institute stringent, comprehensive underwriting standards for the VA Home Loan Guaranty program. VA should immediately undertake a reexamination of its approval standards. In the meantime, VA Lenders should realize that there is need for more stringent underwriting guidelines for VA loans. VA Lenders should consider stiffening their individual company's underwriting guidelines for VA loans beyond those imposed by VA for the purpose of reducing foreclosure losses on future VA loan originations. These increased standards should be in both better underwriting of appraisals and more stringent consumer credit underwriting.

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VA loan field offices should be instructed that loan underwriting decisions should be made exclusive of "pressure" imposed on that office by veteran applicants and/or real estate sales agents.

When loans are being processed by VA field offices, veteran applicants and/or real estate sales agents often contact the field office staff to find out the status of the loan application and often to pressure the staff into approving the loan. Status calls should be restricted to the VA lender submitting the loan application on behalf of the veteran applicant. Veterans may not submit applications directly to VA but must use a VA approved lender. VA field offices are particularly sympathetic to pressure received directly by the veteran applicant for loan approval.

VA loan guaranty field office staff are guided by the premise that they should do everything possible to get the veteran into the house that the veteran has selected to purchase. The result of this attitude is that some veterans who were never really qualified to purchase a home were approved for VA home loans. Often the result is foreclosure. Today's mortgage market is one with little or no inflation which means that veterans faced with foreclosure often are in a situation where the house has not appreciated in value and actually may be worth less than it was at the time of purchase. In the event of foreclosure, the veteran is held financially responsible for any claim VA must pay on behalf of the veteran. Therefore, qualifying a veteran for the purchase of a home for which he or she really cannot afford does not benefit the veteran should the loan end in foreclosure. Only truly creditworthy applicants should be approved for VA loans.

Limiting the veteran's direct access to the VA field loan approval officer will limit the pressure being placed on the VA directly by the veteran to approve the loan. The VA approved lender, submitting the application on behalf of the veteran applicant, should be responsible for contacting VA and providing necessary information. Veteran applicants should be notified that they are restricted from contacting VA field offices directly.

VA should encourage VA Lenders to increase the use of the VA Automatic Program.

Delinquency and foreclosure rates under the VA Automatic Program are consistently less than these rates under the VA prior approval program. Lenders using the VA Automatic Program report that underwriting criteria, particularly credit underwriting procedures, used by their companies in underwriting "Automatic" loans are more stringent than those required by VA. These

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increased underwriting criteria are amongst the reasons cited for the lower foreclosure rates associated with the VA Automatic Program.

VA can encourage the use of the VA Automatic Program by publicizing the availability of the program to lenders not using the program and by emphasizing the benefit of faster processing time available under the program. Real estate agents and builders can be provided with lists of lenders who are approved under the Automatic Program.

Since VA prior approval delinquency and foreclosure rates are higher than those under the Automatic Program, it is often stated that Automatic Lenders often take the easier underwriting decisions and leave the "tough calls" to VA. Increased use of the Automatic Program should mean the industry will apply its more stringent underwriting criteria to these "tough calls" and will probably result in less of these loans being made. This could have a positive effect on delinquency and foreclosure rates.

VA should develop a system that identifies a loan that is resubmitted to VA on a prior approval basis or resubmitted to another VA Automatic Lender when it was rejected by a lender using the Automatic Program.

VA Lenders using the Automatic Program report many instances where they reject a VA loan but the veteran will resubmit the loan to another VA Automatic Lender who will approve the loan or will submit the loan to VA on a prior approval basis. Sometimes the lender who has rejected the application under the Automatic Program is "pressured" into resubmitting the loan to the VA for approval under the prior approval program. There is no system in place that identifies a loan application as having been rejected by another lender or as having been rejected under the Automatic Program by the submitting lender or any other Automatic Lender. VA Automatic Lenders and VA should know if the loan application was previously rejected and should consider such a rejection when underwriting the loan.

VA Lenders should determine if their companies are sending rejected VA automatic loans through VA on a prior approval basis.

Loans that are rejected under the Automatic Program are sometimes resubmitted to VA by a company's branch offices under the prior approval program. Often these loans end up being approved by VA. As previously discussed, VA does not have a system in place that identifies a loan as having been rejected by an Automatic Lender. VA Lenders, as part of their internal quality control procedures, should determine if their companies are sending rejected VA Automatic loans through VA on a prior approval basis, and if so, instructions should be given to

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underwriters and loan origination personnel to stop such actions in order to achieve higher quality underwriting of all VA loans.

II. Appraisals

Lenders' underwriters should develop expertise in appraisal underwriting.

As a result from a request made by the MBA VA Task Force, VA now supplies the full appraisal report, not just the Certificate of Reasonable Value (CRV), to VA Lenders. The purpose of the request was to provide VA Lenders with an opportunity to underwrite the appraisal as a standard part of the origination process of VA loans. In the past VA Lenders received only the CRV that stated a maximum loan amount but provided no additional information as to the condition of the property or how the value was reached.

As the number of foreclosed VA loans on which the VA chooses to pay the claim and leave the property with the VA lender increases (it is now approaching 14 percent of all VA foreclosures), lenders have found that the appraised value of such homes is often significantly lower than the original appraisal. In many instances these differences in values are due to reductions in property values in the geographic area due to adverse economic conditions. Improved underwriting of appraisals will have little impact in such instances. However, in other instances the difference in values is due to the poor quality of original appraisals.

Underwriters need to make use of information provided in the appraisal report to determine the adequacy and accuracy of the appraisal. In order to do this appraisal underwriting effectively, VA Lenders need to train their underwriting personnel in appraisal review skills so that when appropriate, underwriters can question appraisers on the appraisal report and factor in questions on the value of the property in the underwriting decision. Adjustments to appraised values should be made where appropriate.

VA Lenders should also develop procedures for reordering an additional appraisal if their underwriter's review uncovers considerable problems with the appraisal as submitted by the VA assigned appraiser.

A standard appraisal form should be developed for use by VA, FHA, FNMA, and FHLMC.

Currently, the VA and FHA use one appraisal form and FNMA and FHLMC use another. The conventional appraisal form provides more information than the FHA/VA form. VA, FHA, FNMA, and FHLMC officials, along with representatives of appraisal organizations

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are meeting on a regular basis to design a single appraisal form to be used by all of these organizations. The uniformity of one form and the availability of an increased amount of information to be used by underwriters in evaluating appraisals will have a positive effect on the quality of appraisals.

VA should require photographs of comparables on appraisals.

The selection of appropriate comparable properties used in the market value approach of appraising is a key factor in the appraisal process, as is the adjustments made to those comparable properties to account for differences with the subject property.

Photographs of the comparables would provide underwriters with a better opportunity to evaluate the validity of the comparables being used by the appraiser and to better determine the validity of the adjustments being made.

FNMA and FHA require photographs of comparable properties as a quality control measure.

VA should develop a system whereby at the time of foreclosure the name of the appraiser should be identified in order to determine if that appraiser's loans that end in foreclosure consistently have significantly lower values at the time of foreclosure than at the time of origination.

VA needs to improve the policing of its approved appraisers. The establishment of a system that identified those appraisers who performed the original appraisal on foreclosed loans to determine if they have a high percentage of instances where values are significantly lower at the time of foreclosure could be an effective method in oversight of appraisers. The existence of such a system would also serve to put appraisers on alert that VA is serious in its policing efforts, thus increasing the likelihood of better quality appraisals

VA should consider allowing lenders to select appraisers.

Currently VA establishes the criteria for putting appraisers on its panels and VA local field offices assign appraisers. VA Lenders are not allowed to select appraisers that are to be used for their applications.

VA officials have consistently maintained that they are opposed to allowing VA Lenders to select appraisers because lenders are inclined to pressure appraisers to come in with a higher value than appropriate for the property. Appraisers tend to respond to such pressure, VA claims, because they want to continue working for a particular lender. Certainly there is some justification for this concern. However, the existence and importance of lenders' quality control systems are greater than

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ever because of today's deflationary economy. Lenders already establish criteria and hire appraisers for conventional loans. Adjustments in appraised values occur frequently on conventional loans because of quality control systems that are in place. Appraisers being used by lenders for their conventional loans are often removed from a particular company's list of approved appraisers because of poor quality appraisals.

At a minimum VA should produce a list of its approved appraisers and allow lenders to select from that list. Another alternative would be for VA Lenders to be able to veto a particular appraiser that VA assigns to a case if the lender has evidence of consistently poor quality appraisals from that particular appraiser. VA needs to be more conscientious in reviewing the quality of its approved appraisers and removing appraisers who consistently submit poor quality work.

III. Servicing and Foreclosure

VA should exclude from indebtedness the amount of interest that accrues during periods of forebearance. This should include bankruptcy workouts.

When a forebearance agreement is in place with a veteran borrower, VA should "stop the clock" on interest due to VA that is being accumulated during this forebearance agreement. In the case of bankruptcy workouts, this "stop the clock" procedure for interest accumulation should also be imposed.

VA should encourage lenders to contract with third-party counselors for the purpose of making pay-out arrangements with delinquent borrowers.

Third party counseling services are available for hire. Some lenders have successfully used such services for conventional loans in danger of being foreclosed. These third party counselors work on a commission basis and are not employees of VA Lenders. VA Lenders can enter into contractual agreements with these third party counselors to work out paying arrangements with delinquent borrowers. Typically these counselors will use creative approaches, such as leasing back the property to the borrowers and giving the borrower an opportunity to repurchase the property at a future time. The use of such third party counselors should be a pre-foreclosure accommodation encouraged by VA since it could have the effect of costing VA less than paying out the guaranty.

VA should encourage the use of reputable third party counselors by notifying VA Lenders of their availability.

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VA Lenders should review VA foreclosed loans to determine the major areas creating losses so that VA can use this information in redesigning its underwriting criteria.

As part of their quality control system, VA Lenders should review all VA foreclosed loans to determine the major areas causing recurring losses. As a particular deficiency is uncovered, a company's underwriting criteria should be revised to reflect and solve the deficiency. For example, some VA Lenders have reported that VA losses repeatedly come from borrowers who had a bad credit history and the underwriter approved the loan with only minimal explanation by the veteran as to why he or she had a bad credit history. Another problem repeatedly identified in foreclosed VA loans is the veteran borrower who had no cash left after settlement. As VA Lenders identify such problem areas, they should institute more stringent underwriting criteria in these areas.

VA Lenders need to be aware that in the event of foreclosure, if the house is abandoned and vacant, lenders can proceed with foreclosure without approval from the VA field office.

VA officials have indicated that in the event that a foreclosed house is abandoned and vacant, lenders can proceed with foreclosure without approval from the VA field office.

VA Lenders should make use of the procedure allowing VA to pay a partial claim in those instances where someone can take over the property for less than is due.

VA officials have indicated that VA will pay a partial claim in those instances where someone can take over the property for less than is due. The original veteran is always held liable for any claim that VA pays on his or her behalf.

VA Lenders should make use of the procedure that allows veterans to be paid for a deed in lieu of foreclosure as long as VA approves the deed in lieu.

VA officials have indicated that veterans can be paid for a deed in lieu of foreclosure as long as the VA approves the deed in lieu. Such a procedure allows lenders to process claims more quickly. VA's primary consideration in approving this procedure is whether the veteran is able to pay the debt. VA will approve a deed in lieu only if the veteran borrower is unable to pay the debt because acceptance of such deeds preclude a VA claim against the veteran for amounts paid under the guaranty. VA local field offices have authority to make these approvals.

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VA field offices should issue bidding instructions on foreclosed properties on a timely basis.

A serious and recurring problem is that many lenders have had to postpone foreclosure sales repeatedly because they did not receive timely bidding instructions from the VA field offices. The VA has had problems obtaining and evaluating property appraisals in time to issue upset prices for scheduled sales.

Postponement of a foreclosure sale is very costly to the VA and the lender. It unnecessarily extends the time needed to accomplish the liquidation and increases the debt. The VA should take the necessary action to ensure that bidding instructions are received by lenders prior to the scheduled sale date.

VA should combine the "Notice of Default" and "Notice of Intention to Foreclosure" into a new, single notification to the VA and allow this single form to be filed after the 60th day of default.

There is an unnecessary duplication of effort and delays of initiation of foreclosures on accounts where foreclosure is inevitable. The duplication could be eliminated by combining the dual "Notice of Default" and "Notice of Intention to Foreclosure" into a new, single notification to the VA. The VA should allow the lender to file the single notification after the 60th day of default, if there is little likelihood that the veteran will be able to bring the loan current or enter into a repayment plan. After filing the notification with the VA, the lender should be required to wait 30 days before commencing foreclosure action. During this 30 day period, the VA would conduct its ancillary collection efforts. After the 30 day waiting period, the lender should be able to start foreclosure proceedings without additional notice to the VA.

This procedure would ease the administrative tasks of filing and processing dual reports. On accounts where foreclosure is unavoidable, it would allow the legal proceedings to be started 30 days earlier than under current VA policy. This procedure would allow lenders to foreclose more quickly only when foreclosure appears inevitable. The additional 30 day delay imposed by VA only increases the eventual loss to VA.

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Summary of
Statement of Weston E. Edwards
Senior Executive Vice President
Lomas & Nettleton Company
Dallas Texas

On Behalf of
Housing Roundtable, Inc.

Before the
House Veterans' Affairs Subcommittee on
Housing and Memorial Affairs
on the Subject of S. 1887

March 5, 1986

Housing Roundtable, Inc. strongly supports the passage of legislation outlined in S.1887 that would

Provide for the establishment by the Veterans' Administration of more restrictive underwriting guidelines that follow closely to private sector standards;

Provide for the establishment of uniform qualifications and examinations to be met by all competitively paid appraisers who appraise property to be used as security on VA guaranteed loans; consult with the local lending community to determine qualified appraisers; provide lenders with a copy of the appraisal before issuance of a Certificate of Reasonable Value to promote a fair and balanced mechanism to be used in the appraisal process; to improve the monitoring of the appraisal procedure to insure integrity of the system;

Provide for a Property Management and Disposal Pilot Program to be conducted by the Veterans' Administration in order to determine the effectiveness, feasibility and desirability of contracting with commerical companies for the management and disposal of VA acquired property; and,

Provide for the establishment of a Task Force on Management and Disposition of VA Property to advise the VA on proven and successful methods for the efficient management and disposal of VA acquired property.

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Statement of
Weston E. Edwards
Senior Executive Vice President
Lomas & Nettleton Company
Dallas Texas

On Behalf of
Housing Roundtable, Inc.

Before the
House Veterans' Affairs Subcommittee on
Housing and Memorial Affairs
on the Subject of S. 1887

March 5, 1986

INTRODUCTION

Mr. Chairman and Members of the Subcommittee on Housing and Memorial Affairs, my name is Weston E. Edwards, and I am Senior Executive Vice President for Residential Production at Lomas & Nettleton Company. I am also Chairman of the Board of Housing Roundtable, Inc., a national housing policy advisory group, and a Veteran, having served as an officer in the Navy and in the reserves for eight years.

My principal responsibility at Lomas & Nettleton is the direction of our firm's residential mortgage operations which encompasses all of our activities in the origination, underwriting, property appraising and servicing of single-family mortgage loans. Lomas & Nettleton is the nation's largest mortgage banking firm in terms of dollar amount of mortgaged loans serviced. Our total mortgage servicing portfolio in 1985 was $20.2 billion with our VA mortgage servicing portfolio comprising $7.2 billion.

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As a Housing Roundtable member, it is my responsbility to bring to the attention of Congressmen, such as yourselves, and others at the national policy making level, our consensus-derived positions on housing issues of national importance. Housing Roundtable's Board of Directors is composed of representation from every major sector of housing, including mortgage lenders, homebuilders, private mortgage insurers, secondary market participants and other housing experts. Our recommendations, therefore, represent positions that would not necessarily benefit only one sector of housing. On the contrary, our goal is to ensure affordable housing and adequate financing for every American who desires to be a homeowner.

I appreciate the opportunity to testify before the subcommittee this morning in support of several provisions in S. 1887 that affect the Veterans' Administration's Home Loan Guaranty Program. This bill would require the VA to establish underwriting guidelines along the same standards used in the private sector and to establish improved appraisal standards and procedures. The bill also calls for a task force to be created comprised of real estate experts who will advise the VA on proven and successful methods to manage and dispose of its properties. Another important provision in S. 1887 requires the VA to establish a property management and disposal pilot program whereby the VA selects a 10% nation-wide sample of properties they own for private property managment firms to manage and dispose.

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Last fall, Housing Roundtable's Board passed a resolution urging the Veterans' Administration to utilize the property management and relocation industry to manage and dispose of the VA's acquired properties, similar to the pilot program provision in Senator Murkowski's bill. A copy of this resolution was sent to members of both the House and Senate VA Committees. Exhibit 1 contains a copy of this resolution.

THE IMPORTANCE OF THE VA HOME LOAN GUARANTY PROGRAM

The VA's Home Loan Guaranty Program was established as a benefits program designed to compensate veterans for service in the military. Credit assistance is provided so the housing credit needs of eligible veterans and active duty service personnel may be satisfied by private capital on more liberal terms than generally available to nonveterans. Assistance is provided chiefly through substituting the Government's guaranty on loans made by private lenders in lieu of downpayments and other requirements generally required in conventional home mortgage transactions. Even though the Veterans' Administration's lending terms are now more lenient than the FHA program, VA delinquency and foreclosure rates are less, indicative of the sense of responsibility veterans have and respect for this entitlement. I believe everyone present today and others in the mortgage lending business agree that veterans are well deserving of a program of this nature.

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However, the VA Home Loan Guaranty Program does not just benefit veterans, but it plays a significant role in the smooth, orderly operation of the overall housing market by meeting mortgage credit needs the private sector could not economically justify. Our Federal Government has been instrumental and has placed a high priority through the years to ensure that the United States become a nation of homebuyers. The combined commitment of the Federal Government with the dedication and creativity of the private sector has ensured that this goal is met. Homeownership strengthens the family, the community and the nation by giving individuals a stake in the local community. Homeownership provides a property base for local taxes, which supports public education, as well as local government in general. The VA Home Loan Guaranty Program plays an integral part in the economic and political stability of our nation.

THE FORECLOSURE PROBLEM

The home mortgage finance industry is experiencing an unparalleled incidence of mortgage delinquencies and foreclosure losses in its recent history. It is no news to tell you high delinquency rates and foreclosure losses are not just felt by the private mortgage industry but also by Fannie Mae, HUD and the Veterans' Administration, the subject of today's discussion.

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Since the home mortgage finance industry has realized that the favorable economic conditions of the past are no longer prevalent, participants in this industry have been and are addressing the issue of improving loan quality to ensure individuals who buy homes will be able to stay in them, make their mortgage payments-and, thereby, reduce the number of foreclosures. Beginning in the late 1970's with the rapid rise in interest rates, affordability of homes was a major stumbling block in housing Americans. The mortgage lending industry attempted to mitigate the problem by applying less stringent credit underwriting standards so more individuals could qualify for a mortgage loan. Because of the rapid appreciation of home values during this period, any serious payment difficulties the homeowner experienced could normally be rectified by selling the home. In some cases, the homeowner would even realize a small profit in the transaction.

Today, though, economic conditions have changed. The declining rate of house price appreciation (and, in some markets, no home price appreciation or even depreciation of home prices) has necessitated that the home mortgage finance industry reevaluate its loan underwriting standards. The VA has taken steps toward improving credit quality, and yet the VA entitlement has become even more valuable as the result of this process.

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The housing industry has seen a move in the last year to tighten debt to income ratios, criteria used as a benchmark in determining an applicant's capability to honor the mortgage debt. In the late seventies and even the early eighties, the standard for total monthly debt to monthly income was 38% while the fixed monthly debt to monthly income standard was 33%. Currently, the industry standards are 33%/36% and 25%/28% respectively. Fannie Mae has helped shape the industry's move to better underwriting standards by prescribing what they will accept in terms of downpayments, appraisal practices and credit underwriting guidelines.

Appraisal practices are being reevaluated within the home mortgage finance industry so that true market values of property will be obtained, irrespective of the pressure appraisers may feel to provide the "values" lenders need to make the deals. An issue that the industry is still earnestly trying to resolve is determining the value of property that has been financed with widespread concessions. The issue of how cash equivalency appraisals should be applied with homes that are creatively financed is a difficult one. But, it is an issue that is likely to be resolved in the near term.

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The efforts in the industry today will help prevent future problems contributing to high delinquency rates and foreclosure losses. However, the industry will still have to deal with the results of their loans made in the late 1970's and early 1980's. Foreclosure problems will be with us for a number of years and the provisions proposed in S. 1887 are a positive step for the speedy and efficient disposal of foreclosed properties owned by the Veterans' Administration.

THE NEED FOR IMPROVED OPERATIONS AND PROCEDURES IN THE VA PROGRAM

Unfortunately, the VA program has not beem immune to the foreclosure problems the private sector has faced with the loans made during the late 1970s and early 1980s. In fact, VA's problem has been exacerbated because of its more liberal underwriting guidelines and downpayment requirements than what is customary in the private sector. As a result, the effects of the economy in recent years have been and will be more severe for the VA Home Loan Guaranty Program and for those veterans who are trying to keep their homes.

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The increasing number of mortgage foreclosures which the VA has experienced over the past few years has resulted in a negative impact upon the Loan Gurantee Revolving Fund. In addition, the number of homes in inventory over the last five years has increased approximately 150%. The financial impact of these trends results in an increased need for funds to pay off guarantees (acquire homes), increased costs incurred to dispose of homes acquired, and longer inventory time to dispose of homes.

The disposal of foreclosed properties has been hindered historically at the VA by limited staffing. This situation has been aggravated by increased volume, an unfavorable real estate market and a more complex environment in which real estate transactions occur. Obviously, reducing the number of foreclosures would be the most effective way to improve the performance of the Loan Guranty Revolving Fund, but the reality is that foreclosures are on the rise and currently associated costs are in critical need of greater control. In addition to the direct or out-of-pocket costs associated with the foreclosure and resale activities, there are other costs incurred by the government which are not accounted for such as interest not earned on funds expended for foreclosure properties, cost of below market interest rates on mortgages issued on properties resolved and administrative costs incurred to manage the program. It is therefore important that new approaches be explored to minimize the total costs incurred.

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The problems encountered in disposing of foreclosed properties are very complex because foreclosed properties gain a reputation in the marketplace as "tainted", and therefore, obtaining the maximum sales price is very difficult. This is made even more difficult by a general tendency for foreclosures to occur in economically depressed areas or in areas where the demand for housing is low. This is only logical because these situations affect homeowners in two ways. First, shrinking employment opportunites result in job losses and thus loss of wages to make mortgage payments. Also, in economically depressed areas there is little appreciation or depreciation in home values. Real estate markets are not national in scope and must be dealt with on a very local basis. Even when the real estate market is favorable on a national level, there are always local areas when this is not the case. Also, the converse is true. This situation makes the managment of a resale operation which is national in scope very difficult and complex.

One alternative to the VA's property management problems is to utilize the private sector to perform this disposal function. There are companies that manage and dispose of perperty on a nationwide basis for both the government and other private companies. These property management companies utilize a network of focused vendors and branch offices to maintain the market properties in their inventory. Another service they perform is

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that they have developed sophisticated computers and data base systems which clients can access in order to evaluate and manage their programs. These systems provide the capability to inquire as to the status of any property in inventory on an on-line basis, determine the costs incurred on properties in inventory and project future cost experience.

These companies provide this service to their clients for a variety of purposes such as resale of foreclosed property, sale of newly constructed homes and sale of homes for transferring employees. The strength of most of these companies is in their ability to develop marketing strategies on an individual house basis which will dispose of the home in the shortest period of time and at the lowest cost. Many of the properties that they presently handle are very similar to the profile of a VA foreclosed property. For example, homes in economically depressed areas and in poor repair.

In addition, as corporations close facilities and relocate their employees, it becomes the responsibility of these companies to dispose of many of their employees' homes in very unfavorable economic environments. Many of these properties are located in remote areas and are very similar to the financial and real estate environment that VA properties experience. Over the years they have demonstrated that ability to provide cost effective results for a client base which is comprised of a majority of the Fortune 1300 companies.

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With the pressures that exist on the VA to improve the performance of the Loan Guaranty Revolving Fund, use of private sector companies to manage the disposal of foreclosed properties should be tested. Such an arrangement would provide the VA with the necessary resources to handle changing levels of homes in foreclosure status while at the same time minimize the costs to VA. In addition, the resale time which they are able to achieve in selling homes is lower than what is presently being accomplished by VA. Therefore, a quicker resale time will improve cash flow into the Loan Guaranty Revolving Fund.

Housing Roundtable is aware that the National Association of Realtors has developed a property disposition program with the VA in mind. Their program is designed so that regional VA offices' staffs would work in conjunction with local realtor boards to ensure the successful listing of properties. The property listings would be available to all licensed brokers. We understand that the NAR is concerned, in the event the pilot program provision in S.1887 passes, that should VA properties be managed by one or two national property management companies, then the property listings might not be opened to the real estate community at large. Housing Roundtable would share this concern and would strongly recommend that any legislation passed would ensure that the property management firm(s) selected in the pilot program would list VA properties with a multiple listing service so property listings would be available to all licensed brokers. Nevertheless, Housing Roundtable believes that the advantages property managment firms can offer in terms of experience in maintaining properties, preparing properties for resale and negotiating property prices warrants that their services be employed.

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S.1887

The housing provisions encompassed in S.1887 will set the stage to put the VA Home Loan Guaranty Program back on the right track so that future veterans may enjoy the same benefits past veterans were afforded. The foreclosure problem is a serious one. It requires experts in the real estate field who can overcome the special difficulties unique to foreclosed properties. The Property Management and Disposal Pilot Program outlined in this bill will initiate a program much needed by the VA to employ the services of private property managment and relocation firms to expedite the disposal of 10% of the properties the VA owns. The organization of a Task Force composed of real estate property management experts to advise the VA on ways to improve the manner in which the VA manages and dispose of real property should be a valuable resource to both the VA and the private sector. The VA Home Loan Guaranty Program can only become stronger because of these measures.

The pilot program and task force provisions will do much to mitigate the problems created by past decisions. However, the future operations of the VA Home Loan Guaranty Program must be based on procedures that will ensure its continued viability. The provisions in S.1887 that

Provide for the establishment of more restrictive credit underwriting guidelines that follow closely to private sector standards; and,

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Provide for the establishment of uniform qualifications and examinations to be met by all competitively paid appraisers who appraise property to be used as security on VA guaranteed loans; consult with the local lending community to determine qualified appraisers; provide lenders with a copy of the appraisal before issuance of a Certificate of Reasonable Value to promote a fair and balanced mechanism to be used in the appraisal processs; and, finally, to improve the monitoring of the appraisal procedure to insure the integrity of the system.

will help ensure that veterans who own their homes can afford and stay in them. In addition, the veteran, who may face economic difficulties due to unforeseen events, such as loss of employment, divorce, or transfer, and thus must sell his house, should find more incidences where the appraisal will support the property's current market value.

CONCLUSION

This completes my testimony, and I would be happy to respond to any questions the Subcommittee may have.

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EXHIBIT 1

RESOLUTION OF THE BOARD OF DIRECTORS
OF THE HOUSING ROUNDTABLE ON
PRIVATE SECTOR MANAGEMENT OF VA FORECLOSED HOMES

November, 1985

BACKGROUND

The Veterans Administration manages the home mortgage guarantee program as a benefit program for veterans. Despite attempts to help veterans avoid defaults on their guaranteed home mortgages, the VA's inventory of foreclosed property has increased significantly. The total number of foreclosed homes in inventory in recent years approximates 20,000. The responsibility for managing the resale of these single family homes rests with the Veterans Administration.

The Loan Guaranty Revolving Fund, the VA's primary source for operating funds, is administered by the VA. In the last two years this fund has been depleted as a result of a significant increase in the VA'S level of real estate owned (REO) inventory. Specifically, there has been (1) an increased need for funds to pay off guarantees and acquire homes; (2) increased costs incurred to dispose of homes acquired; and, (3) increased costs from very long inventory holding periods. In addition, the funding crisis has been aggrevated by the termination of the VA's direct loan program which eliminated a steady source of income to the Loan Guaranty Revolving Fund.

The VA has received appropriations in the hundreds of millions of dollars from the Congress over the last few years to cover the Fund's operating deficit. Now, the VA is under continuing pressure to reduce the deficit by increasing its funding fee from the current one (1%) percent level to 3.8%. The nation's homebuilders feel such an increase would result in the program pricing itself out of the market.

One alternative to minimize the amount of the operating deficit would be to reduce substantially the costs incurred to manage and dispose of the VA's REO inventory.

The problems of managing efficiently an inventory of foreclosed property on a national scope are not unique to the Veterans Administration. The Federal Savings and Loan Insurance Corporation (FSLIC) is experiencing similar difficulties. Recently, the Federal Home Loan Bank Board approved the formation of a federally chartered asset management corporation, authorized under Section 406 of the National Housing Act, to manage the assets held or controlled by the FSLIC. Specifically, formation of the corporation called Federal Asset Disposition Association will place FSLIC loans and foreclosed property under the management of private sector real estate and property managers who are experienced in competing in the market place and getting the best price for assets to be sold.

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RESOLUTION

Given that substantial savings to the U.S. government would result in the improved administration of its guaranteed mortgage benefit program for veterans, specifically, the management of the VA's REO inventory;

Given that such cost savings would greatly obviate the need for an increase in the funding fee paid by veterans for VA mortgage guarantees;

Given that the present VA staff is limited in size and in experience in managing an inventory of such magnitude, geographic dispersion and diversity;

Given that the property management/relocation industry has experience with managing properties similar to the profile of the Veterans Administration's REO inventory;

Given that management information and status reporting on costs is essential to manage resale activity efficiently and that the property management/relocation industry is capable of providing such a service; and,

Given the reduced inventory time to dispose of homes that the property management/relocation industry affords its private sector corporate clients;

The HOUSING ROUNDTABLE urges the Veterans Administration to utilize the property management/relocation industry to manage the disposition of REO homes for the purpose of reducing costs and maximizing cash flow to its Loan Guaranty Revolving Fund.

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Statement of
John T. Connor, Jr.
Vice President and General Counsel
PHH Group, Inc.
Hunt Valley, Maryland

before the
House Veterans' Affairs Subcommittee on
Housing and Memorial Affairs
on the Subject of S. 1887

March 5, 1986

PRIVATE SECTOR RESALE OF VA FORECLOSED PROPERTY

Introduction and Summary

Mr. Chairman, I am privileged to appear before you today in support of Section 311 of Senate Bill 1887. Section 311 calls for an 18-month pilot program during which the Veterans Administration would contract with the private sector for the management and disposition of 10% of its inventory of foreclosed properties.

The Congress and the Veterans Administration have a proud history of assisting our nation's veterans in becoming homeowners. We applaud these accomplishments and recognize the continuing importance of veterans' housing benefits. Our purpose here today is (a) to highlight our belief that these high purposes can continue to be achieved in this time of budgetary constraints, (b) to illustrate how the private sector can assist the VA in doing so, (c) to urge this Subcommittee to support the VA's recent initiative in requesting comments on a pilot program to be conducted over a two year period covering 5,000 single family homes (or 10% of VA inventory), and (d) to recommend to the VA additional safeguards to ensure that the Section 311 "pilot program" is a valid and true test of the savings which the private sector can contribute.

Our support of the bill and the safeguards we are urging the Subcommittee to enact are based on three major factors relating to the VA Home Loan Guarantee Program:

- Potentially substantial savings to taxpayers and benefits to veterans from contracting out the real estate management and disposition functions can be realized without sacrificing major program social and economic objectives.

- There are significant legislative and administrative obstacles to realizing the potential savings and benefits.

- The Committee can take several actions to overcome the obstacles to minimizing costs to taxpayers and maximizing benefits to veterans.

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In this time of budgetary constraints and potential change, the question that faces the Congress, and this Committee, is: "How can this program provide the same (or improved) benefits at a lower cost to the taxpayer?"

The Housing Roundtable feels that greater involvement by the private sector can certainly reduce the costs now burdening the VA, particularly for properties repossessed by the agency. A different approach to the VA property management and disposition program is necessary, and S. 1887 addresses this issue.

As a member of the Housing Roundtable, a businessman in the private housing relocation and property management market and a citizen, I fully support the goal of Section 311 of S. 1887 and urge Congress and the VA to undertake the suggested safeguards.

Potential Benefits from Contracting Out

The primary benefits from contracting out include:

- o Decreased costs to taxpayers;
- o Favorable impact on the Federal Budget; and
- o Maintenance of benefits to veterans and other program socioeconomic goals.

In its most elemental terms, the VA typically has 20,000 foreclosed homes in inventory as a result of its guaranteeing mortgages from private sector lenders to veterans (or those assuming VA loans) who thereafter default. These homes are held in inventory for widely varying periods, averaging 9 to 14 months. In business terms, the U.S. Government then has an investment position in each home, which is dissipated the longer these homes are held in inventory for the following two reasons: (1) Carrying costs, such as local real estate taxes, maintenance and insurance, eat away at that investment, and (2) interest costs on the money invested in those homes grow month by month. If the carrying time can be reduced to 4 to 6 months on average, with an average home value of $63,000, the potential savings in a USG fiscal year would be $90 million dollars. This Congress has appropriated over $1 billion during the last three fiscal years to cover the deficits in the Revolving Fund. This step alone - using the private sector to manage the disposition of foreclosed homes - would reduce by 25 to 50 percent the annual VA Revolving Fund loss which the Congress has had to make up with appropriations.

Funds saved by lowering the cost of the program can be used for two purposes:

- o Reduction of demands on the Treasury to supplement the Home Loan Guarantee Revolving Fund.

- o Minimization of loan service fees charged to veterans. In addition to reducing the demand on taxpayers, the program would provide greater benefits to veterans that use the program.

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Legislative and Administrative Obstacles to Improving Program Efficiency

Previously, I used the phrase "in business terms" because the HLGP does not currently account for the investments as commercial businesses would. For reasons that relate to the evolution of the HLGP over the last 42 years, the VA does not keep track of all the actual costs and revenue like a business. For example:

- o Interest expense is not considered in property disposition decisions. The hundreds of millions of dollars appropriated by this Congress to replenish the Revolving Fund which finances repossessed homes are "interest free" as far as the internal accounting system is concerned. Nevertheless, the Treasury must pay interest on the national debt. In effect, the interest expenses of the program are being paid by the taxpayers. More importantly, however, the failure to account for such interest expense results in cost accounting distortions that bias the administration of the program.

- o Carrying costs per house are not minimized because the homes tend to remain in inventory for excess amounts of time before final sale. The VA's guidelines provide that if the home is resold at a loss - that is, for less than the VA's investment position (the mortgage balance owing) - then the veteran must make up the loss to the VA. Holding that home long enough to ensure there is no loss on each individual account benefits the defaulting veteran. However, this practice also increases the true cost of the entire program. Our Treasury might be better off if the VA resold these homes at a quicker pace at managed loss levels and forgave the veteran his debt.

- o There is no "bottom line" in the current approach. Not only is this program not administered as a business, but, in addition, the true cost to the taxpayers cannot be quantified. The VA is not mandated to perform such quantification.

> **The aforementioned factors will invalidate the proposed pilot program. Unless all relevant costs to the program are considered, the private sector efficiency criteria will be completely out of phase with the Government's. There will be no valid basis for comparison.**

These costs have necessitated substantial appropriations in recent years to replenish the Revolving Fund. They have also fostered various schemes to reduce the deficit, such as OMB's proposals to increase revenues to the Guaranty Program by raising the guarantee fee 100 to 200 percent. The proposals have also fostered protests from our nation's builders that such fees would make the program unavailable to too many veterans and, in effect, shut it down.

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Actions Recommended to Overcome Obstacles and Reduce Program Cost

If higher user fees are not the answer, what about lower costs? By using the private sector, these homes can be resold more quickly, thereby reducing costs to the federal government. The current VA benefit program would be strengthened. Everyone would benefit, especially our taxpayers.

A number of companies currently perform property management and disposition services on a national basis, for the private and government sectors. These companies manage and control the resale process on a centralized basis and provide their clients with up-to-date status reporting and management information systems.

Towards this end, the VA has requested comments and recommendations on the following issues: (1) the geographic distribution of properties included in the test; (2) services to be provided by the contractor, such as title review, evictions, securing and maintenance, property repair, valuations, sales listing, sales promotion and purchase offer processing; (3) measurement and reporting of contractor performance: (4) contractor's fee structure, including possible performance incentives; (5) means of ensuring widespread participation within local real estate communities including women-owned and minority-owned businesses; and (6) the contractor's ability to assist purchasers in obtaining non-VA financing.

To assure a valid pilot program in the face of the aforementioned obstacles, this Committee should, at a minimum, take the following actions:

- o Insure that the true cost to taxpayers are evaluated both for the government-managed portion of the real estate inventory and for the privately-managed portion. This involves estimation of all costs that are relevant to the management of the program. Relevant costs are not always the same as accounting costs. Relevant costs include all resources expended in operating a program both directly and indirectly. They include interest on capital, overhead, maintenance and repairs, and expenditures of other governmental entities caused by the program. Accounting costs generally measure what has occurred according to a restrictive set of conventions designed for a specific purpose like the Federal budget process. Often, as in this situation, accounting costs do not provide a measure of all of the resources expended.

- o Insure that the true costs and benefits to veterans are properly evaluated. Reductions in program costs can be passed on to veterans in terms of reduced loan origination fees (or reduced increase in the fees). Some properties may also be sold at lower prices than under the existing systems, thereby leaving veterans who have defaulted on their mortgages with a greater obligation to the Government than they would have under the existing system. The Subcommittee should explicitly evaluate these tradeoffs.

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- o Insure that the pilot program is representative of the population of homes in inventory over a period of years, in terms of price range, community and neighborhood socioeconomic conditions, demographics, and type and condition of property.

Congressional action is needed to ensure valid pilot program evaluation and to rationalize the property management and disposition program. Congress can help by working with the VA to encourage the VA to see its own program in terms of relevant economic costs rather than accounting costs. In this manner, its true costs can be quantified and savings realized. It is unrealistic to expect the private sector to attempt to administer the resale of foreclosed homes under present bookkeeping constraints and arbitrary criteria. A pilot program which is not valid proves nothing.

Thank you for your attention.

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STATEMENT OF HILLIARD ZOLA
EXECUTIVE DIRECTOR OF THE AD HOC POLICY GROUP

BEFORE THE
COMMITTEE ON VETERANS AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 5, 1986

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the operations of the Veterans Administration's housing program. In July of 1985, in response to the industry concerns regarding the proposed 5 percent user fee, the Homebuilder's Ad Hoc Policy Group made a decision to undertake an independent review of the loan guarantee fund's operation. A task force chaired by Mr. George Matters of U.S. Home Corporation was formed, and took up its work. At their request both PHH Group and Lomas and Nettleton joined the Task Force, sat in on its deliberations and received research materials generated by its professional consultants. I am here today to report on the Task Force findings. A copy of the full report commissioned by the group has been made available to the committee.

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Conclusions of the Ad Hoc Policy Group Task Force

The Ad Hoc Policy Group Task Force has reviewed the many arguments put forth both in criticism and in defense of the VA Guarantee Loan program. It finds itself in agreement with the Executive and those in Congress who insist that large deficits in the revolving fund should be avoided. Furthermore, it is persuaded that the increase in the VA's foreclosure rate, and the rise in the size of the VA inventory of foreclosured property is a serious problem. The costs associated with acquisition and resale of foreclosed property are considerable, and the efficiency with which the operation is undertaken by the VA has probably deteriorated as the size of the inventory has doubled from its historical levels, without any real increase in VA staff devoted to administration of the program. It cannot, however, agree with those critics who would attempt to lower the foreclosure rate either by raising downpayment requirements or abandoning residual underwriting in favor of rigid underwriting guidelines, the net effect of which would be to raise income requirements.

The task force is convinced that most of the variation in foreclosure rates for both the VA and conventional mortgage markets can be explained by changes in payment to income and loan to value ratios as loans mature. Put another way, the rate at which these ratios change for particular loans during the first three years of the loan's lifetime is the critical determinant of whether a loan is likely to go into default. It acknowledges that highly leveraged loans with relatively high payment to income requirements are more risky than others. Nevertheless, the VA program has been characterized by low and zero downpayment loans for a very long time and it is only recently that foreclosure rates have risen dramatically.

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The causes are found in the economic events of the early 1980's. Loans made in the 80-82 period were subject to a set of unfavorable economic events.

The task force believes the more favorable economic climate of recent years will result in a downturn in the VA foreclosure rate beginning in 1986, and continuing through 87 and 88, easing the burden on VA staff and relieving the fund of cost pressure. Also, the task force urges that efforts be taken to improve the underwriting and loan servicing process. In particular:

- Loan applications rejected by automatic underwriters should be identified to the VA;

- Consideration should be given to changing the program and delegating all underwriting to the mortgage banking industry but preserving residual underwriting;

- Assuming the prior approval process remain in place, the VA should develop a management-information system capable of detecting and correcting deficiencies in its underwriting program. Default rates for prior approval loans should not vary significantly from rates on automatic underwriter loans;

- The VA should use all means at its disposal to assure that VA loans being serviced for a fee by mortgage bankers are monitored by the servicer as closely as conventional loans;

- Consideration should be given to adoption of a 60-day notification process for delinquent loans.

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In addition, the task force believes that the foreclosure, inventory management, and property resale process can be improved with an accompanying reduction in the losses incurred in foreclosure sales. The task force strongly recommends that:

- The VA develop an internal management information system which permits it to render a full cost accounting of its property management operation. Only then will it be able to structure its program efficiently and comply with the spirit of the Deficit Reduction Act of 1984's rules governing acquisition of property. At present, incomplete government accounting makes it impossible for the task force to accept the government's contention that by accepting for resale 88 percent of all foreclosed properties, it minimizes its losses;

- The VA give serious consideration to entering into contractual arrangements with private firms for the management and sale of all foreclosed property;

- Furthermore, the task force endorses the VA's intent to undertake a two-year demonstration whereby 10 percent of its inventory will be managed and sold by private contractors;

It is the task force's position that adoption of these recommendations, together with the expected down-turn in foreclosure rates brought about by lower interest rates and growth of national income will bring the loan guarantee fund into near balance without further increases in origination fees. The task force considers the OMB proposal to increase origination fees for revenue purposes short-sighted. It

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would jeopardize the primary goal of the VA guarantee program, by denying home ownership to those veterans most in need of the advantages of the low down-payment provisions the program provides. Moreover, the task force finds administration proposals which would allow the origination fees to be financed particularly ill-informed. Allowing the financing of these fees would exacerbate the problems associated with administration of the residual underwriting process, and could increase the probability of default by inappropriately raising initial loan to value and payment to income ratios. The task force acknowledges that the OMB proposal has the advantage of being able to raise revenue for the fund simply and directly. However, to be even-handed, OMB should also acknowledge that the loan guarantee fund was never designed to break-even; and, more importantly, that substantial increases in loan origination fees will ration out a large number of veterans.

Instead, the OMB proposal ignores the rationing effects and attempts to justify the fees by reference to the value of the federal guarantee. Somehow, the OMB sees no conflict between the fact that the program was intended to encourage home ownership by veterans by guaranteeing low (or even zero) downpayment loans, and its proposal which would substantially increase the size of the required "downpayment" because the loan is guaranteed. In the task force's view, the administration's proposal is simply a way to curtail access to homeownership for those veterans most in need of the help the federal program provides.

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PARALYZED VETERANS
OF AMERICA
Chartered by the Congress
of the United States

STATEMENT FOR THE RECORD

BOB MORAN, ASSOCIATE LEGISLATIVE DIRECTOR

PARALYZED VETERANS OF AMERICA

PRESENTED TO THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

OF THE

HOUSE COMMITTEE ON VETERANS' AFFAIRS

CONCERNING

VETERANS ADMINISTRATION HOUSING PROGRAMS

MARCH 5, 1986

Mr. Chairman and Members of the Subcommittee, I am Bob Moran, Associate Legislative Director of Paralyzed Veterans of America, and on behalf of the members of Paralyzed Veterans of America, a congressionally chartered veterans' service organization, I want to thank you for affording us the opportunity to submit our statement for the written record.

Initially, I want to extend PVA's appreciation to you Mr. Chairman and the Members of this Subcommittee, for your ongoing efforts to improve the effectiveness of VA Housing Programs that directly affect our members, and for allowing PVA the opportunity to work with you and your competent and professional staff in this important endeavor.

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I would like to take a moment and recap the most recent efforts and successes of this Subcommittee, for included within Public Law 98-543, the "Veterans' Benefits Improvement Act of 1984," were two very important provisions relating to the VA's housing programs. The first provision increased the allowance for those service-connected blinded veterans and service-connected disabled veterans who have suffered the anatomical loss or loss of use of both hands, to make necessary adaptations to their homes, while the second provision increased the special adapted housing assistance grant for "wheelchair" homes. Mr. Chairman and Members of the Subcommittee, we truly appreciate these improvements, for all of PVA's members are catastrophically disabled veterans, and we know all too well the difficulties associated with and the true value of affordable, accessible housing.

Special Adaptive Housing Allowance

PVA supports the provision within S. 1887, and commends you, Mr. Chairman and Mr. Smith for recognizing last year an inequity that exists in the VA's housing program by introducing H.R. 1516. This legislation, which was later passed as part of H.R. 2344, removed that inequity and would allow certain disabled veterans assistance in acquiring already special adapted homes.

It should be noted that most homes are not built to accommodate persons with disabilities. Consequently, most homes must be remodeled for accessibility which entails certain necessary structural alterations and added costs. It is the modifications that make these homes appropriate residences for disabled veterans, but under the existing law certain disabled veterans are

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not qualified to receive the allowance of $6,000 toward the purchase of these specially adapted homes.

This provision within S. 1887 removes the inequity that exists and allows service-connected blinded veterans and service-connected disabled veterans who have suffered the anatomical loss or loss of use of both hands, the opportunity to receive assistance in acquiring these residences that have already been specially adapted. PVA has emphasized and testified before to the importance of providing disabled veterans with opportunities to restore their lives to ones of independence and dignity to the fullest extent possible, and accessible housing is a vital part of this process.

Home Loan Guaranty Program

Another issue of concern to PVA is the provision within S. 1887 that deals with the VA's Home Loan Guaranty Program and its credit underwriting and loan processing standards. The VA's Home Loan Guaranty Program is an entitlement program, wherein every veteran meeting the requirements as provided by statute is eligible for the guaranty of his mortgage. Since its inception in June of 1944, the VA Home Loan Guaranty Program has assisted over 11 million veterans and their families in obtaining suitable, affordable, private housing.

It has been one of the most successful housing programs in this nation's history, and the vast majority of loans guaranteed have cost taxpayers only the minor administrative cost of processing the initial loan. During its 41 year history, only four percent of all the loans guaranteed under this program have resulted in foreclosure. Without a doubt, the VA Home Loan Guaranty Program has been a good investment in America, providing stability and expanding the tax base of nearly every community in our country.

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PVA questions the proposals within S. 1887 which would restructure within the VA Home Loan Guaranty Program to include credit underwriting and loan processing standards like that of conventional lenders To tighten or to restructure the VA's Program like that of conventional lenders is to go against the principle for which the VA program was created -- the readjustment of our nation's veterans who served their country.

In addition, underwriting standards used by conventional lenders vary from institution to institution and state to state, depending on the difference of the cost-of-living and the local housing market, and therefore would not be an appropriate approach to the VA's Home Loan Program.

Conclusion

Mr. Chairman and Members of the Subcommittee, on behalf of the members of Paralyzed Veterans of America, we are pleased to give our full support to the provision as previously passed by you and included within S. 1887, which would allow certain eligible veterans to receive their special adapted housing assistance allowance of $6,000 toward the purchase of an already adapted home.

Again, PVA questions proposals which deal with credit underwriting and loan processing standards within the VA's Home Loan Guaranty Program. We believe that since its inception, over forty years ago, that the VA's Home Loan Guarantee program has and continues to serve its intended purpose -- providing veterans and their families with affordable housing.

This concludes PVA's testimony for the written record Mr. Chairman, and we would be glad to respond in writing to any questions you might have.

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THE NON COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

"STRENGTH IN UNITY"

Statement of

Richard W. Johnson, Jr.
Director of Legislative Affairs

before the

Subcommittee on Housing and Memorial Affairs
Committee on Veterans Affairs
U.S. House of Representatives

on the

VA Loan Guaranty Program

March 5, 1986

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Mr. Chairman, NCOA begins its testimony this morning by extending to you and the other members of the veterans affairs committee its special thanks for the efforts you have made in introducing and securing the passage of legislation to avert a drastic reduction in VA loan guaranty operations. By your efforts Mr. Chairman, a public tragedy has been averted.

S. 1887

NCOA also appreciates this opportunity to comment on the housing provisions of S.1887 which proposes some sweeping and controversial changes in the manner in which VA loans are approved, and in the appraisal system employed to assess the reasonable value of properties upon which the VA issues loan guarantees. Also included in the measure are new foreclosure proceedures, an increase in the guaranty amount from $27,500 to $33,500 and the creation of a new task force to advise the VA on management and disposal of properties aquired through foreclosure. S. 1887 is indeed a comprehensive measure.

Loan Guaranty Amount

Mr. Chairman, NCOA is pleased to offer its endorsement and support to several sections of the bill. The association fully supports the proposed increase in the loan guaranty ceiling. As stated in testimony before this panel last year, NCOA believes the increase is necessary to keep the program current to the needs of veterans. NCOA also appreciates the action taken by this committee last year to increase the guaranty and therefore will not dwell upon the subject.

Foreclosure

The association is also pleased to support the provisions of S.1887 which create new loan foreclosure proceedures. These provisions will require the lender to notify the VA if the

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veteran fails to make two payments on the guaranteed loan. This will allow the VA an opportunity to contact and work with the veteran to resolve, if possible, the problems which caused the missed payments. These provisions also require the lender to begin foreclosure proceedings after the veteran has missed the fourth payment and absolves the VA of liability to pay the guaranty if the lender fails to comply with the timely filing of foreclosure proceedings. This provision removes from both the VA and lenders the significant latitude to delay foreclosure allowed by current law. The provision is quite rigid in that it does not allow the Administrator to exercise discretion in its application. Thus a temporarily unemployed veteran or one who has become recently (and securely) remployed may be denied an opportunity to cure the indebtedness even though prospects for success may be excellent. Accordingly, NCOA would encourage the addition of a provision to allow administrator's discretion under extraordinary circumstances.

This section of the bill also includes a provision requiring the VA to gather information and report on factors contributing to foreclosure. Over time, this may prove to the most important provision of the bill. Hopefully it will provide some guidance on how to avoid foreclosure. It has our strongest support.

Management and Disposition Task Force

NCOA has some reservations about creating a task force to examine and make recommendations regarding management and disposal of properties aquired by the VA through loan foreclosure as proposed in another portion of S.1887. Certainly the proposal addresses a significant problem considering the number of housing units currently in the VA inventory. Nevertheless, NCOA is not certain such a panel would contribute to the solution and even sees a potential for such a group to add to the problem. The bill directs that the panel members who are not employed by the VA be brokers and property managers. Regretably the bill does

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not provide for participation by veterans organization representatives. As a result, findings and recommendation of the body may well be colored by parochial interests of the group. Yet NCOA is not adamantly opposed to the creation of such a panel, nor is the organization opposed to the test program for listing ten percent of VA properties with private brokers and property managers. However, both time and money would probably be saved if the VA simply employed the services of one or two reputable consultants capable of auditing the administration's current proceedures and recommending improvement.

Underwriting Practices

NCOA has reservations about two provisions of the Senate bill. Foremost, the association believes the proposals to change underwriting standards is a premature attempt to control foreclosure risks by unfairly limiting standards. NCOA also believes the criteria set forth in the Senate legislation would make the program unmanageable.

Essentially the bill requires the Administrator to perscribe federal regulations establishing acceptable underwriting standards for loan guarantees and acceptable standards to be used by lenders in gathering credit information and loan processing. The bill further states that such standards shall include, as a measure of loan qualification, debt to income ratios, reliability and stability of income measures, procedures to determine income necessary to meet debt and requires that all these standards be consistent with commercial lending practices.

The proposal is a shotgun attempt to cure default although it has not been established that defaults rates are related to current underwriting practices. Earlier in this statement NCOA commented on the anticipated value of the proposal requiring the VA to gather information on the factors contributing to foreclosure. Such information is necessary to intelligently and

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fairly address the problem. NCOA, for examples, firmly believes that unpredictable causes such as unanticipated divorce or unemployment are more often the culprit in foreclosure. These cannot be measured in ratios. Accordingly, the association does not support the concept of arbitrarily changing loan standards and depriving thousands of veterans the opportunity to participate in the program, simply to test a concept.

Furthermore, the association does not believe it would be possible to draft regulations and maintain them in a timely manner given the nature of the Code of Federal Regulations and the need to address geographical differences across the United States. It is for this reason also that NCOA is uncomfortable with the proposal regarding changes in the property appraisal system.

Property Appraisals

The Senate bill proposes the Administrator create a standard examination system and uniform set of qualification for appraisers who desire to accept fee basis employment. Provisions of the measure also allow the administrator to set appraisal fees and regulate the use of appraisers and set rules for appeal of appraisals. All of the provisions in this section have a laudible goal which is supported by the association.

These provisions seek to insure that all fee appraisers are honorable people (as measured by VA qualification criteria), who are competent to do their job (as determined by regional VA exams), and will be fairly compensated (in amounts determined fair by the VA.) It sounds absurd but perhaps fees should be based on examination results. These are ideal objectives to resolve a readily identifiable problem, but can they realistically be legislated and regulated with success? Does the VA even have the expertise to measure the competence of appraisers?

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As previously stated, Mr. Chairman, NCOA is not opposed to the goal, but it is uncomfortable with the proposed process. Enactment of these provisions will probably prove to be an expensive experiment which may discourage reputable appraisers from participation. Perhaps it would be wiser to study these provisions further or test their impact in a selected location before committing significant resources to a national change.

Fee Increases

Finally, Mr. Chairman, NCOA would like to take a moment to comment on the President's budget proposal and its impact on the loan guarantee program. Regretably, the Presidents proposal to modify the program is so radical that it changes the very character of the program and thus its relative value to veterans. NCOA will not retreat from the arguments it made to this committee last year as Congress considered a similar presidential proposal. At that time, the administration proposed to increase from 1% to 5% the fees charge to veteran participants in the loan guaranty program. This year the proposal is to increase the fee from one percent to two percent in fiscal 1987 with subsequent increases until the fee reaches 3.8 percent in 1989. The goal of the administration is clearly stated; to fund losses caused by foreclosure on unfortunate veterans from fees collected from other veterans.

Mr. Chairman: the loan guaranty program is too important to the U.S. economy to be terminated. The administration could not afford its loss because of its impact on the housing industry.

The loan guaranty program was never intended to be a cost free program. In fact, in its early years, veterans were even given a gratuitions reduction in mortgages guaranteed by the VA and provided in VA funding. However, because the program operated for so long without need of approprication somehow an

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illusion was created suggesting that the program was intended to be self supporting. Through good fortune and excellent management it was self supporting for many years. In fact, it was so successful, that previous administrations stole some of this good fortune, and good management by making policy changes which resulted in a succession of losses. Those losses subsequently led to the need for appropriations in 1984 and 1985.

Hence, the President is stuck with a program which cannot be terminated because of its impact on the economy, so the administration is now trying to perpetuate the myth that the program should be self supporting.

In turn, it has recommended that the cost of program operation be transferred to veterans in the form of increased fees. Essentially, this means that veterans who are able to meet their loan obligations and pay the fees will be taxed to offset program losses caused by the defaults of less fortunate veterans.

What was once a program provided for veterans by a grateful nation will become a veterans helping veterans program. In real terms it is actually worse. It becomes a program of veterans helping the president make the economy and budget look good simply masquerading as a veterans benefit.

Thank you for rejecting this proposal again this year.

Conclusion

Mr. Chairman, NCOA is pleased to have had this opportunity to appear before the committee is support of various improvements in the loan guaranty program. The association is hopeful that legislation to improve foreclosure proceedings and increase the guaranty amount will be readily adopted. NCOA supports the concepts of improving property management, disposition and appraisal yet believes these provisions of the proposal could be

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improved before adoption. NCOA strongly encourages the committee to require the VA to gather information and report on factors leading to loan foreclosure. Finally, the association is adamantly opposed to modification of loan qualification criteria particutarly since no clear link can be drawn between current criteria and loan foreclosure.

Thank you.

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STATEMENT OF
RICHARD F. SCHULTZ
ASSOCIATE NATIONAL LEGISLATIVE DIRECTOR
DISABLED AMERICAN VETERANS
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERANS AFFAIRS
March 5, 1986

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the more than one million members of the Disabled American Veterans and its Ladies' Auxiliary, I wish to say how very much we appreciate the opportunity to appear here today to comment on legislation pending before this Subcommittee.

At the outset, Mr. Chairman, the DAV wishes to commend you and the members of the Subcommittee for your continued support and outstanding leadership in the area of the VA Home Loan Guaranty Program.

S. 1887

As passed by the Senate on December 2, 1985, this measure would, through appropriate amendment to Title 38, U.S. Code, modify existing practices of the VA's Home Loan Guaranty Program in several areas.

Under the terms of the bill:

The VA would be required to establish a credit underwriting standard to be applied to all VA Home Loan Guaranty applicants. This standard would include criteria for evaluating the reliability and stability of veteran's and vendee loan applicant's income in determining the monthly income needed to meet the anticipated loan payments.

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Lenders would also be required to certify to the VA that loans are processed in accordance with the standard prescribed by the VA and provide for civil penalties for false creditworthiness certifications by lenders.

Also, the Administrator would be provided authority to waive the prescribed underwriting standard in extraordinary situations.

Default notification and foreclosure procedures would be changed to require lenders to notify the VA when a veteran is two months in arrears on mortgage payments and require the lender to initiate foreclosure proceedings on loans four months in arrears.

The VA would be required to notify the veteran within 15 days after notification of two missed monthly payments of the consequences of foreclosure.

The VA would also be relieved of liability of interest accruing between the date on which the holder of the loan in default would be required to initiate foreclosure proceedings but fails to do so and the date on which foreclosure proceedings are actually initiated.

In the area of fee appraisals, S. 1887 would require the Administrator to:

* establish uniform qualifications for all VA appraisers;

* develop a standardized examination which must be successfully completed in order to qualify as an approved VA appraiser;

* require the Administrator to consult with the mortgage bankers in local areas to determine which qualified appraisers should be considered for inclusion on the list of VA approved appraisers;

* select appraisers on a rotating basis from the list of VA qualified appraisers;

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* furnish the lender with a copy of the appraisal before issuing a certificate of reasonable value (CRV) so that lenders who are in disagreement with the CRV could request a second appraisal chosen by the lender from the VA list;

* require the VA to establish fee limitations for VA approved appraisers comparable to private market rates.

S. 1887 further requires the Administrator to furnish real estate brokers and other real estate professionals information on the availability of real property for sale by the VA.

The Administrator would also be required to establish a "Task Force on Management and Disposition of VA Property" to develop an exchange of information between the VA and the real estate industry on management and disposition of VA acquired property.

The measure would further require the Administrator to establish a pilot program to determine the effectiveness, feasibility and desirability of contracting with commercial companies for the management and disposal of VA acquired properties.

S. 1887 would also increase the amount of the VA loan guaranty from $27,500 to $33,500 and make permanent the Administrator's authority to transfer funds, which are in excess of projected needs in the Direct Loan Revolving Fund (DLRF), to the Loan Guaranty Revolving Fund (LGRF) and provide for the use of fee basis attorneys in federal courts to foreclose on loans made or acquired by the VA without the concurrence of the U.S. Attorney General.

VA Home Loan Guaranty Program

As you are aware, Mr. Chairman, the VA Home Loan Guaranty Program was established in 1944 by Public Law 346, 78th Congress. The purpose of this program is to assist eligible

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veterans in obtaining favorable credit terms, without a down payment, from private lenders for the purchase, construction or improvement of homes to be occupied by veterans and their families.

Without a doubt, many veterans could not purchase a home without the VA's Home Loan Guaranty Program. Since its beginning in 1944, nearly 12 million veterans have obtained a home loan guaranty through the VA.

There is no doubt that the VA's Home Loan Guaranty Program has added stability and expanded the tax base of nearly every community in our country.

Veterans' use of the VA Home Loan Guaranty Program -- like private sector housing programs -- is subject to and directly related to general economic conditions and, more specifically, to conditions in the financial and housing markets.

As we all know, during the early 1980's, the housing and financial markets experienced a shortage of mortgage funds. This, coupled with increased home prices, as well as the highest interest rates in history and the unprecedented rates of high unemployment, adversely impacted on the VA's Home Loan Guaranty Program.

Veterans, like all Americans, were victims of these economic conditions and, as a result, there was a dramatic decline in the number of home loan guarantees approved by the VA (Fiscal Year 1982 was the lowest since 1944), accompanied by an equally heavy increase in home loan defaults and subsequent foreclosures.

Fortunately, those economic conditions have improved and mortgage funds are generally more available, interest rates are down from their record-breaking high in Fiscal Year 1982, and

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home prices have remained relatively stable. Additionally, the high rates of unemployment have also been reduced significantly.

Unfortunately, however, the VA Home Loan Guaranty Program continues to experience unacceptably high rates of foreclosure.

As you are aware, Mr. Chairman, to increase revenues to the VA Loan Guaranty Revolving Fund, the Congress enacted legislation -- Public Law 98-369, the Deficit Reduction Act of 1984 -- that increased the user's fee from .5% to 1.0%, required the fee to be deposited in the Loan Guaranty Revolving Fund and extended authority to collect the fee through September 30, 1987.

We feel it appropriate at this time to mention that the Congress rejected the Administration's proposal to increase the user's fee in Fiscal Year 1986 and we urge similar rejection of an increase in the user's fee in 1987.

Also, we wish to thank you, Mr. Chairman, for introducing H.R. 4130 and, indeed, thank the entire Congress for enacting this legislation which sets realistic ceilings for the Home Loan Guaranty Program, thus assuring that veterans and their families will continue to have the benefit of a VA Home Loan Guaranty Program in Fiscal Year 1986.

Mr. Chairman, during last year's hearing on the VA's Home Loan Guaranty Program we asked several specific questions about the steps being taken to reduce the risk of loss to veterans and the Veterans Administration. We also made some recommendations which we felt would protect the integrity of the VA Home Loan Guaranty Program.

We clearly recognize that the intent of S. 1887 is to improve the VA's Home Loan Guaranty Program and protect veterans and the VA from unscrupulous individuals who would profit illegally at their expense. While we have no official position

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on the loan guaranty provisions of S. 1887, we are pleased that some of our concerns and recommendations have been addressed in this measure.

Mr. Chairman, at this time we would like to make additional comments and recommendations -- especially in light of the anticipated 30,000 foreclosure rate in Fiscal Year 1986 -- concerning the continued reports of fraud and abuse in the VA Home Loan Guaranty Program, such as equity skimming, mobile home industry kickbacks, fraudulent and poor appraisal practices, lack of a standard loan origination policy and faulty or false credit reporting.

Mr. Chairman, it appears that some of these illegal practices and schemes are targeted against certain socioeconomic groups in specific geographical locations.

In an attempt to look into this area, we would suggest that the Subcommittee consider obtaining statistical information from the Veterans Administration on the number of foreclosures by (1) amount of loan guarantee and (2) Zip Code.

The DAV believes that additional steps should be considered in an effort to preserve the integrity of the VA Home Loan Guaranty Program. These include:

* levying fines or considering debarment action against individuals or corporations when it is shown that by their negligent or fraudulent practices veterans and the VA have suffered financial loss;

* voiding loan guarantees when it is shown that lenders are materially at fault in qualifying non-creditworthy veterans who subsequently default on their loans;

* "spot checking" a specific number of credit reports to insure that they have not been altered after the credit report was completed;

* to curtail "equity skimming," the VA should be granted the authority for immediate access to property in

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foreclosures when it is shown that the veteran has vacated the property based on a conveyance or purported conveyance notwithstanding any state or local foreclosure law.

Mr. Chairman, the above recommendations are offered in an attempt to reach that "delicate balance" of a well-managed and financially sound Loan Guaranty Program. It is not our intent to tread on the primary purpose of the VA's Home Loan Guaranty Program -- that is to provide meaningful assistance to veterans in the form of favorable credit terms without a down payment for the purchase of a home.

Mr. Chairman, decisions made by this Subcommittee will directly affect the future of the VA's Home Loan Guaranty Program. We are confident that you and the members of this Subcommittee will take appropriate action to insure that our nation's deserving veterans will continue to have the benefit of a well-managed and financially sound VA Home Loan Guaranty Program.

This concludes my statement, Mr. Chairman. I again wish to thank you and the members of this Subcommittee for allowing us this opportunity to express the DAV's views on this important subject.

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Statement of

The American Legion

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WASHINGTON, D. C. 20006

by

PAUL S. EGAN, DEPUTY DIRECTOR
NATIONAL LEGISLATIVE COMMISSION
THE AMERICAN LEGION

and

DENNIS K. RHOADES, DIRECTOR
NATIONAL ECONOMIC COMMISSION
THE AMERICAN LEGION

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

on

VA HOME LOAN IMPROVEMENT LEGISLATION, S. 1887

March 5, 1986

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Statement of

Dennis K. Rhoades, Director
Economic Commission
The American Legion

Before the

Subcommittee on Housing and Memorial Affairs
Committee on Veterans Affairs
United States House of Representatives

March 5, 1986

Mr. Chairman, The American Legion appreciates the opportunity to present our views on the housing provisions of S. 1887, passed last year by the Senate. This hearing is particularly germane, coming as it does on the heels of a recent crisis in the VA home loan guaranty program which threatened its very viability. We congratulate you, Mr. Chairman, and other members of the Committee, for your swift response which assured that the program will be able to operate unfettered, at least until September 30th of this year.

In that regard, we would like to observe that, despite the popularity of this program, it has come under attack for the past several years, partly because of elevated default and foreclosure rates, but also because there are elements within the Administration who maintain that the federal government does not belong in the credit market at all. Recent Office of Management and Budget (OMB) budget proposals to sell off the Federal Housing Administration (FHA) and to eliminate the Small Business Administration are in keeping with this ideological goal. Any proposed legislation, however minor, which calls for changes in the VA's mortgage guaranty program must be examined in that context.

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The legislation before this Committee contains proposals to tighten administrative controls over the program, chiefly to restore the solvency of the Loan Guaranty Revolving Fund (LGRF). This fund, self-sustaining in the past, has in recent years required appropriations to enable the VA to meet the obligations resulting from high numbers of foreclosures. Congress has mandated imposition of a one percent user fee to offset in part the drain on the LGRF. The Administration has proposed a substantial increase in this fee in its budgets for the last two fiscal years. As you are aware, Mr. Chairman, The American Legion has opposed, and will continue to oppose, user fees. We view these so-called "fees" as nothing more than taxes in disguise. We support alternative measures which would help return the LGRF to solvency without compelling, in effect, present day veteran home buyers to pay the acquisition and management costs of previously guaranteed properties.

Alternative measures, such as those proposed in S 1887, however, must be carefully considered. We must not lose sight of the fact that the VA Home Loan Guaranty program is, first and foremost, a readjustment benefit, originally created by Congress to assist veterans returning home from World War II who had been unable to establish a credit history, nor accumulate the capital, necessary to buy a home. In forty years it has helped nearly 12 million veterans, and provided a substantial lift to the nation's housing industry.

Unfortunately, in the first half of this decade, the home buying veteran faced unusual economic circumstances. The price of

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homes rose dramatically, often increasing ten to fifteen per cent per year. Interest rates also rose, to 14 or 16 per cent, fueled by double digit inflation, which also created expectations of rapidly rising wages. Two wage-earner families became the norm, simply to bring in sufficient income to survive. Many Americans and not just veterans, bought homes with prices and monthly payments previously unthinkable. Then the 1982 recession struck. Millions of Americans faced extended layoffs, closed factories, reduced or static earnings, or structural joblessness. In 1983, in fact, unemployment among Vietnam era veterans was over 900,000, an historic high water mark. Although the economy has considerably improved, many of these conditions persist. It should come as no surprise to anyone that, given the unpredictable economic turbulence of the eighties, defaults and foreclosures in the VA home loan program rose substantially and continue into today.

Clearly, the Congress needs to impose some stability on the VA home loan program, to assure that consistent and sound credit and appraisal practices prevent a repetition of the chaos of the past few years. Earlier, we had stated that the program must be viewed as a readjustment benefit. The fact is, the veteran does not benefit from buying a home he or she cannot afford, defaulting and going into foreclosure and marring his or her credit record. The intent of S 1887 is, therefore, fundamentally sound. In view of our continually changing economy, we do indeed need better program controls.

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The American Legion has no quarrel with the credit underwriting and loan processing standards of S 1887 except for two concerns. The bill calls for credit underwriting standards to be established by the Administrator in regulation to reflect the underwriting principles and practices of commercial lending institutions with respect to loans with comparable security arrangements. Our first concern is application of general credit standards to the home buying veteran with respect to down payments. The no down payment feature of VA loans is probably the single largest advantage to first time home buyers who do not have the accumulated capital to invest ten or twenty percent in the property. Lending institutions view size of down payment as a measure of risk. We believe Congress needs to make it clear that the down payment feature of the program should be preserved in its present form, regardless of current credit underwriting practices and principles.

Second, we have serious reservations about the regulation process. As you know, Mr. Chairman, the Office of Management and Budget (OMB) is responsible for clearing all federal regulations, and, in effect, often dictates agency policy through the clearance procedure. Given OMB's hostility toward federal participation in the credit market, we can see the possibility of draconian standards imposed upon the mortgage guarantee program in keeping with an agenda to undermine, then eliminate, the VA's home loan program.

The provisions regarding default notification and foreclosure procedures are designed to reduce the VA's costs as a result of

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increasing indebtedness from delayed foreclosure proceedings. What disturbs us about this section is not its intent - to save money - but the utter disregard of the veteran in the process.

Indeed, the bill itself passes over the vital matter of foreclosure and loan counseling in which the VA, as the advocacy agency for veterans, should be deeply involved. Because it is not specifically addressed in law, the VA has blithely disdained any major initiative to provide counseling and foreclosure assistance to veterans having difficulty paying their mortgages. The American Legion believes that integral to any changes in default and foreclosure procedures should be a substantial program of assistance, including outreach to the veteran involved. Such a program might involve credit counseling (including pre-loan counseling for veterans whose credit evaluation is marginal), assistance with recasting the loan, and referrals for job assistance for the unemployed. Section F of the current Lender's Handbook has useful suggestions in this regard, and should be placed into law. We might also suggest to the Committee that it examine, with the Congressional Budget Office, the option of using the current user fee to provide for short term mortgage payment insurance. In any case, The American Legion maintains that any changes in the foreclosure procedures must be accompanied by a requirement for a proactive program of assistance to the veteran by the VA.

Mr. Chairman, we support the proposal calling for transfer of funds from the Direct Loan Revolving Fund (DRLF) to the LGRF, as well as the provisions governing Property Management and Disposal.

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The VA must improve its disposal of properties. We do not object to contracting out this function as long as staff resources are redirected to the counseling and forebearance programs discussed above. The American Legion also endorses the improvement of present VA appraisal practices. We believe that quality control can and must be improved and that this provision will assure that such improvement takes place.

Finally, Mr. Chairman, we are pleased to note that S 1887 raises the amount of guarantee from $27,500 to $33,500 to account for the 22.5 percent rise in the median housing price. We trust the Committee will assess the impact of this raise on any loan guarantee cap established for FY 87. Since there are wide differences in housing prices in various parts of the country, however, we suggest that the Committee examine the possibility of indexing the guarantee. Average or median housing prices could be obtained from existing data already collected by the federal government in developing its economic indicators.

Mr. Chairman, this concludes the statement of The American Legion. We would be pleased to respond to any questions you may have.

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